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OLG

our purpose making life better Ontario
our vision | to be the model for gaming worldwide

Annual Report 2005–2006

OLG

2008-04744/

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Message from the Minister

As Minister of Public Infrastructure Renewal, responsible for the Ontario Lottery and Gaming Corporation (OLG), I am pleased to present OLG's 2005–2006 annual report.

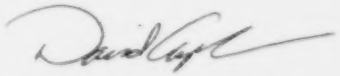
In this fiscal year, OLG generated $2 billion after expenditures for the Province – supporting provincial programs including the operation of hospitals, charities through the Ontario Trillium Foundation and responsible-gaming initiatives, as well as provincial priorities such as health care, education and public infrastructure. The gaming industry also strengthens Ontario's prosperity by directly employing more than 20,000 people and supporting thousands more jobs in the tourism industry and horse racing sector.

OLG began a number of improvements to its gaming sites this year, including upgrades to Casino Windsor and Casino Niagara. In February, OLG opened a new slot facility at Ajax Downs racetrack, part of Ontario's Gaming Strategy. Also during this year, new technologies were introduced to help revitalize the charity bingo industry. Four pilot sites in Barrie, Kingston, Peterborough and Sudbury have shown positive initial results.

In January 2006, OLG and the Ministry of Health Promotion announced the QUEST FOR GOLD INSTANT lottery. All proceeds from the sales of QUEST FOR GOLD tickets are used to support Ontario's amateur athletes.

Our government continues to make responsible gaming a priority in Ontario. As part of this government's broader problem gambling strategy, OLG developed and implemented a number of responsible-gaming initiatives. In November 2005, our government introduced Responsible Gaming Information Centres in two commercial casinos located in Niagara Falls and Windsor. OLG also reached its goal of providing responsible-gaming training to all employees – part of the organization's Responsible Gaming Code of Conduct.

With continued support and direction from this government, I am confident that the progress OLG is making will ensure that Ontario's gaming industry continues to be competitive and socially responsible.



The Honourable David Caplan
Minister of Public Infrastructure Renewal and
Minister responsible for OLG

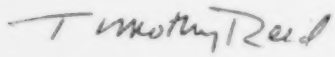
Letter of Transmittal

The Honourable David Caplan
Minister of Public Infrastructure Renewal

Dear Minister:

On behalf of the Board of Directors, I am pleased to submit the Annual Report of the Ontario Lottery and Gaming Corporation for the fiscal year ended March 31, 2006.

Yours very truly,



Timothy Reid
Chair
Board of Directors

Message from **the Chair**

I am pleased to introduce this report on the achievements of the Ontario Lottery and Gaming Corporation (OLG) for the fiscal year 2005–2006.

In January 2005, the Government of Ontario set out a comprehensive and responsible-gaming strategy with a goal of long-term sustainability. In 2005–2006, the Corporation continued to implement new initiatives designed to meet the challenges and risks of a mature and highly competitive gaming marketplace, under the excellent leadership of Chief Executive Officer, Duncan Brown and his senior management team.

Our bottom line financial results for 2005–2006 were $6 billion in total revenues and $1.8 billion in net income.

In the 2006 Provincial budget, the Government allocated the majority of OLG revenues to the operation of hospitals, $100 million to the Ontario Trillium Foundation and $36 million to the Ministry of Health and Long-Term Care for problem-gambling and related programs.

Statistic Canada's *Perspectives* (June 2004) reported that of the 7.2 million adults in Ontario who gambled in 2002, 0.6 per cent were addicted to gambling; 2.1 per cent were at moderate risk and 3.8 per cent were at low risk of becoming addicted. In 2005–2006, the Board of Directors continued to lead and oversee the Corporation's responsible-gaming initiatives, which are carried out within the broader Government of Ontario responsible-gaming strategy. The initiatives include the opening of on-site Responsible Gaming Information Centres, staffed by the Responsible Gambling Council, at casinos in Niagara Falls and Windsor. As well, the Corporation launched a new public awareness program regarding myths associated with gaming – myths which may contribute to the risks of problem gambling behaviour.

OLG also upgraded its training about problem gambling and delivered it to all employees.

Collectively, these initiatives are directed at encouraging safe gambling behaviours and linking persons with real or potential gambling problems to available community resources.

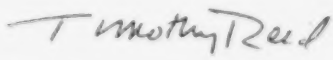
In other areas of its responsibilities, the Board of Directors, with the advice of external experts, undertook a comprehensive assessment of the Corporation's corporate governance framework, including structure, policies and practices, to ensure that its governance practices are second to none.

The Board of Directors, through its Audit and Risk Management Committee, also monitored internal controls and oversaw the continued enhancement of the Corporation's integrated business risk management program.

The Corporation also engaged its 8,000-plus employees to review and revise its statement of Core Values to guide them in all of their relations with customers, stakeholders, suppliers and one another.

The Board of Directors maintained strong links between this Crown Corporation and its sole shareholder, the Government of Ontario, to ensure effective communication and accountability.

I wish to recognize the team effort of the Directors who have served this year. I extend the Corporation's thanks to Peter Philip Mercer and Perry Anglin whose terms ended in 2005–2006, and a special thanks to Lou Panontin for his long and valued service to the Corporation. Ron Fotheringham, Michelle Samson-Doel and Beverly Topping provided their expertise and acumen throughout the year. We were pleased to welcome Michael Gough, Kristina Liljefors and Marlene McGraw as new Directors.



Timothy Reid
Chair
Ontario Lottery and Gaming Corporation

Message from **the CEO**

I am pleased to report on another year of progress and accomplishment at OLG. In 2005–2006, net income to the province increased by $32 million over the previous fiscal year, partnerships were strengthened and efficiencies achieved, while our leadership role both in our communities and in our industry held strong.

Operational excellence that sustains revenue and optimizes profit has been a key goal this year, and achievements are evident in each business line as well as in several integrated initiatives. We also extended the reach of our comprehensive problem-gambling strategy – training staff, opening pilot information and referral centres at Casino Windsor and Niagara Fallsview Casino Resort and launching a major new public-awareness campaign.

Our Business Optimization Team has played a key role in bringing about efficiencies as OLG assesses its activities against best business practices and encourages development and appropriate collaboration across business lines.

Behind the scenes, strategic sourcing and rationalization of key purchases have allowed us to take advantage of our full buying power.

A more public collaborative success came to fruition in September 2005 with the opening of the Sports Section, a facility for off-track betting, viewing sporting events and playing sports lotteries at Casino Niagara. This attractive and exciting amenity for our customers was the result of a fine partnership among the lottery division, our commercial casino operator and the Fort Erie Race Track.

Individual business lines have had their own important initiatives and stellar successes.

The Lottery division continues to lead in total revenues. The launch of PayDay in June 2005 bore full fruit this year – with revenue exceeding expectations. And buoyed by that success, the division continued its innovations with adjustments to LOTTO SUPER 7 rollover prizes, enhancements of sports lotteries and, in January 2006, the launch of the newest INSTANT lottery, QUEST FOR GOLD, in support of Ontario's amateur athletes.

Our gaming division continues to improve customer service in its charity casinos and slots-at-racetracks facilities. Ticket In-Ticket Out (TITO) technology was piloted at Slots at Woodbine Racetrack in August and by year-end, plans were in place for its extension to our other gaming facilities. Our newest facility, Slots at Ajax Downs, opened to the public in March 2006, with TITO fully in place.

Our commercial casinos continue to compete effectively as major tourist attractions and fully integrated entertainment centres. This year, Casino Windsor began a major $400-million expansion of its facilities. The staged renovation and expansion is well underway, with some new facilities already open at year-end and others opening during the following two years.

OLG continues to prepare for and meet the challenges of the evolving gaming, entertainment and tourism industries by reducing costs, improving competitiveness and building on strengths in each business line. We are investing in the people who work for us to ensure sustainability and effectiveness. We are strengthening relationships with our municipal partners. We are moving forward with a new agreement that ensures stable revenues for First Nations' development projects, health and education.

OLG has achieved a great deal this past year. I am proud of the executives, staff and associates who have made these accomplishments a reality. Our work has been guided by the strong leadership of our Board of Directors. I very much appreciate the working relationship that we have established.

Our team is strong and it remains our principle asset. Together, we will continue to ensure that we are doing all that is necessary and doing it effectively to optimize returns for the people of Ontario and to contribute fully to the communities in which we operate.

Duncan Brown
CEO
Ontario Lottery and Gaming Corporation

Overview

Ontario Lottery and Gaming Corporation (OLG) and its contract management companies employ more than 20,000 people across Ontario. The Corporation is responsible for 27 gaming sites, as well as the sale of lottery products at approximately 10,800 retail locations. This operational enterprise created by the Government of Ontario is intended to provide gaming entertainment in an efficient and socially responsible way that maximizes economic benefits for the people of Ontario. Related economic sectors and host communities benefit directly from gaming revenues.

The *Ontario Lottery and Gaming Corporation Act, 1999* requires that net revenue from lotteries, charity casinos and slots at racetracks be made available for various purposes including the provision of health care and the promotion and development of physical fitness, sport, recreation and cultural activities throughout the province. Revenues totalling $100 million are also made available to the Ontario Trillium Foundation for distribution to charitable and non-profit organizations every year.

Purpose

Making life better for people across Ontario. We make it possible by generating revenue provincially and economic and social benefits locally.

Vision

To be the role model for gaming entertainment worldwide by creating excitement and possibility for customers and generating economic return, while upholding the public's best interest.

Governance

The legislative authority of the Corporation is set out in the *Ontario Lottery and Gaming Corporation Act, 1999*. Classified as an Operational Enterprise Agency, OLG has a single shareholder, the Government of Ontario, and reports through its Board of Directors to the Minister of Public Infrastructure Renewal.

The Chair and members of the Board of Directors are appointed by the Lieutenant Governor in Council and come from various communities across the Province of Ontario. As of March 31, 2006 the Board of Directors comprises Timothy Reid of Toronto (Chair), Ron Fotheringham of Woodview, Michael Gough of Toronto, Kristina Liljefors of Ottawa, Marlene McGraw of Brantford, Michelle Samson-Doel of Richmond Hill and Beverly Topping of Toronto.

Board Mandate

The Board of Directors sets policy for the Corporation and counsels the Chief Executive Officer and senior executives, who oversee the Corporation's business operations. The board's mandate is to direct management with a view to optimizing the Corporation's overall performance and increasing shareholder value in executing its various responsibilities:

- to establish a well-defined strategic planning process, setting strategic direction
- to approve the annual business plan as well as operating and capital budgets
- to define and assess business risks
- to review the effectiveness of internal controls in managing risks
- to appraise the performance of the Chief Executive Officer
- to oversee a code of conduct to ensure the highest standards in dealing with customers, suppliers and staff, with due regard to ethical values and the interests of the community-at-large in all corporate endeavours
- to track overall performance of the Corporation
- to remain informed and provide input as required concerning communications with the Government of Ontario and other stakeholders
- to ensure compliance with key policies, laws and regulations.

Board Committees

The Board of OLG operates with and through three permanent working committees.

Governance Committee

The Governance Committee assists the Board in developing and monitoring governance policies and practices. This committee helps identify policy areas for review and presents recommendations to the Board for consideration in order that the Board may ensure the Corporation's adherence to the highest standards in corporate governance. As of March 31, 2006 this committee includes Beverly Topping (Chair), Kristina Liljefors, Michelle Samson-Doel and Timothy Reid.

Audit and Risk Management Committee

The primary function of the Audit and Risk Management Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the Corporation's financial statements, internal controls over financial reporting, capital expenditure program and risk management program as well as established legal and ethical compliance systems. Composition of the committee, as of March 31, 2006 is Timothy Reid (Acting Chair), Ron Fotheringham, Michelle Samson-Doel and Beverly Topping.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee assists in ensuring that the Corporation has sufficient organizational strength at the senior management level to achieve its short- and long-term goals. This committee also recommends, for Board approval, the compensation and benefit plans for senior management. Composition of the committee, as of March 31, 2006 is Ron Fotheringham (Chair), Kristina Liljefors and Timothy Reid.

Values

During 2005–2006 the Executive undertook a series of consultations and focus groups with employees to review and reflect on the values that inform their work, laying the ground for development of a newly focused expression for the Corporation's values that would be introduced at the beginning of the next fiscal year:

- *Act with integrity.* This means doing the right thing. We will balance what our customers and business partners ask of us, with what the people of Ontario expect of us.
- *Respect* our customers, employees, partners and the people of Ontario. Respect starts with listening openly and honestly to the diversity of people and ideas around us.
- *Be accountable.* We accept the responsibility of setting and attaining high standards for ourselves in serving our customers and acting in the public interest.

Optimal & **Sustainable**

OLG's success is built on its abilities to serve the needs of its customers and to adapt to change. In Ontario's maturing and ever-changing gaming and entertainment environment, OLG must rise to many challenges.

Increased competition from cross-border gaming and the rising value of the Canadian dollar continue to have a direct impact on OLG gaming operations. Organizational change, increased innovation and productivity and the cultivation of relationships within our communities and with our stakeholders are key to meeting these and future challenges.

Resolving Issues, Building Relationships

This fiscal year ended on a positive note for OLG, First Nations communities and the people of Ontario when the Ontario First Nations Limited Partnership (OFNLP) and Ontario Premier Dalton McGuinty signed an agreement-in-principle that sets out a new partnership for sharing the economic benefits of gaming. The agreement, when finalized, will provide over 130 Ontario First Nations with greater financial stability. It will replace the existing agreement that runs until 2011, by which Ontario First Nations receive gaming revenue solely from Casino Rama. The agreement-in-principle provides for 1.6 per cent of OLG gross revenue starting in 2011. The more stable revenue will allow First Nations to make key investments in community, economic and cultural development, health and education.

Municipalities

This year also saw a further cultivation of relationships with our municipal stakeholders. Initiatives were designed to facilitate stronger working partnerships with municipal leaders and to create a favourable environment for increased local patronage while raising awareness and improving public understanding of the Corporation's local economic impact and its contributions to community programs through sponsorships and grants.

An analysis of history and issues of importance for each community, identification of community events for potential sponsorship, tours of host municipalities, including meetings with mayors and councils, Chambers of Commerce and service clubs are a few of the elements in this ongoing, relationship-building program.

Business Optimization

The Business Optimization project has been a major corporate endeavour during this fiscal year, as senior management has worked to identify and prioritize opportunities for long-term sustainable improvement in processes and structure of the organization. The project was launched in January 2005 with a two-year mandate.

Accomplishments

During the initial phase of the project, the project team reviewed and analyzed information on OLG's day-to-day operations and conducted personal interviews with senior executives. Out of this research, potential opportunities for optimization were identified. The opportunities ranged from cost savings and process improvement to new revenue generation. Next, for validation purposes, business cases outlining potential opportunities for optimization were developed with the input and expertise of key operational staff from across the company.

By the end of the fiscal year, most business cases had been completed and a number were being implemented. The first significant outcome of the Business Optimization project was the development of a formal mechanism by which projects will be prioritized and more effectively managed.

Progress was also made, working with the Alcohol and Gaming Commission of Ontario, on streamlining the controls that regulate casinos and slot operations. Also, changes were implemented that standardize menus and food service at charity casino and slot operations across the province. And a new strategy was developed for slot machine distribution including a plan for leased slot machines. At fiscal year-end, work was continuing on business cases dealing with Corporate Services functions and structure, and a review of overall marketing expenditures was underway with a view toward identifying best practices for producing the highest return-on-investment.

Enterprise Project Management Office

The Enterprise Project Management Office (EPMO) began to assist the Executive in prioritizing the multitude of corporate-wide projects undertaken each year. The EPMO was established in the fall of 2005 as a new department based in the Sault Ste. Marie office and staffed from the existing OLG workforce. The centralization is expected to result in significant cost efficiencies in future years by ensuring that funding and support is directed to key projects in order to make the most effective use of human and financial resources.

Core Values Focus

OLG's core values help shape the culture of the organization. Core values are also most effective when they are clearly understood and supported by employees at all levels within the Corporation. In keeping with the business optimization goals and the establishment of corporate priorities, it seemed this was an appropriate time to reflect on OLG's eight core values, originally established in 2000.

OLG Executive felt that reducing the number of values and refocusing their expression would make them clearer and more directly relevant. With these premises in mind, three key values were articulated following more than 30 focus groups with staff:

- Integrity
- Respect
- Accountability.

The Executive then developed a plan for the effective launch of the renewed values at the beginning of the next fiscal year.

Human Resources

To create an increasingly viable operation, effective hiring, staff retention and continuous skills upgrading are essential. OLG's Human Resources (HR) team is key to the Corporation's success in meeting competitive challenges and responding to market or regulatory changes.

HR's strategic and structured interview model maximizes fairness and consistency in recruitment. This year, the process was made more user-friendly to provide managers with more control. In addition, use of assessment centres in identifying potential candidates for management positions has increased. These centres ensure improved candidate selections and help to identify areas where professional development may be advantageous.

Staff and Management Training

Several key programs were developed this year, including specialized training regarding Responsible Gaming to over 8,000 staff.

Health and Safety programs were held in response to a corporate-wide health and safety training audit and amendments to Canada's criminal code. HR implemented new Manager/Supervisor Health and Safety Training (MHST) and Contractor Safety programs this fiscal year. One-and-a-half day sessions were offered, covering management's obligations regarding health and safety – assisting managers to understand their obligation to protect the rights of affected parties and to identify potential risks in the workplace. A half-day Contractor Safety Program for suppliers clarifies their responsibilities and OLG's expectations, and is designed to mitigate the risks associated with management of external contractors working at OLG sites.

Booster modules were also developed this year for Launch Pad to Success – our management development program – offered in concert with the Rotman School of Management (University of Toronto) and the competency framework of our management performance program was refined and enhanced. In addition, a new employee handbook for Lottery and Corporate Services was introduced.

Crisis Management

A Crisis Management program was identified as crucial to the overall Risk Management and Business Continuity programs of the Corporation. October 2005 saw the launch of a six-month project designed to support these OLG programs.

The Crisis Management Program provides the organization with the ability to strategically manage internal and external communications during and after an event impacting our operations in order to assess when and if Business Continuity plans should be activated.

The Crisis Management Program team considered various potential crisis scenarios, then identified specific and appropriate actions, policies and documents that should be in place concerning HR, security and communications. Emergency operations centres were identified that will facilitate

policy-making, coordination and overall direction of the recovery efforts. These centres are being outfitted with the necessary communications equipment and systems to serve as clearing houses through which our recovery teams can share information and work together.

IT implemented a Crisis Communication tool to be used in the event of failure in OLG's current communications infrastructure. In the event of a crisis, the Crisis Management team will be able to dispatch predetermined messages to team members via Blackberry, home and mobile phones, text messaging and other means. This tool, rolled out to the full Crisis Management Team, will help ensure effective resumption of business activities.

Information Technology

Information Technology (IT) plays an essential role at OLG. In June 2005, individuals from various areas within IT were brought together to form the new IT Service Centre. The combined wealth of technical knowledge and experiences will allow for three distinct support groups within the centre: the Customer Coordination Team, the Deskside Support Team and the Response and Incident Resolution Team. The IT Service Centre will be available to address customer requests seven days a week, 365 days a year.

At the National Purchasing Institute's annual awards ceremony, OLG's Procurement Department received an Achievement of Excellence in Procurement Award the highest honour in the field – for excellence in productivity, e-procurement innovation and demonstration of leadership.

Smoke-Free Future

Planning has been underway this year for May 2006, when the Smoke-Free Ontario Act comes into effect.

OLG is committed to providing a safe and healthy environment for both patrons and employees. By the end of March 2006 two-thirds of gaming sites were already subject to and in compliance with various local and municipal non-smoking bylaws. When these bylaws were introduced, there was a decrease in customer traffic and a related reduction in revenues at affected facilities. Since that time, many gaming sites have started to show some recovery in business volumes.

In the short-term, the changes are expected to have a negative impact on gaming revenues. We will continue to address this impact on our business both through the implementation of greater efficiencies and by increasing the value of what we offer our customers. We will pursue the highest entertainment value possible and an increasingly wide range of amenities including luxury accommodations, spas and shopping at our destination gaming facilities.

OLG is considering a variety of alternatives for outdoor smoking that our facilities might provide for patrons and employees who do smoke. The new provincial smoke-free law does allow for the provision of outdoor smoking shelters or patios and OLG is assessing options for patrons and employees who might wish to use them.

Responsible & **Responsive**

More than $2 billion is generated annually for provincial priorities such as health care and education from OLG operations while ensuring that social responsibility is a key component of OLG's delivery of gaming entertainment in Ontario. This includes responsibility for a sustainable industry that benefits the communities and the people of Ontario as well as responsibilities to our employees, associates and patrons.

In 2005–2006, $36 million of slot machine revenue from charity casinos and racetrack slot facilities was dedicated to problem-gambling education, research and treatment. Ontario's responsible-gaming program is among the best funded in North America.

OLG is also an active corporate citizen in the communities where it operates. Working within a culture of contribution and caring, our employees are active participants both at work and in the wider world.

Responsible Gaming

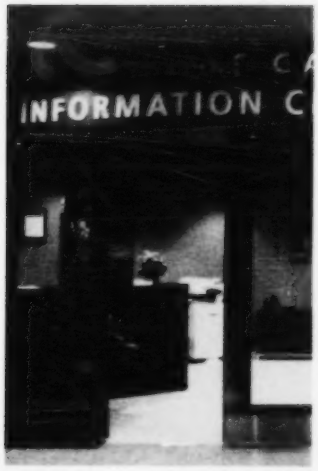
"Actions speak louder than words," was one of the key statements of OLG's Responsible Gaming Code of Conduct, launched on March 31, 2005. The Code articulates the Corporation's commitment to responsible gaming. And in this first full fiscal year since its launch, OLG has realized an ambitious schedule for action, undertaking a number of important initiatives to train staff and inform our customers in order to reduce the risk of problem gambling.

Responsible Gaming Training

In October 2005, OLG launched employee and management training programs to increase awareness of potential gambling-related problems and understanding of best practices in Responsible Gaming. As part of the commitment to the Responsible Gaming Code of Conduct, distinct programs were developed to address the unique issues and expectations encountered in each business area: Gaming, Lottery, Bingo and Corporate Services. By March 31, 2006, every OLG employee – from the front line to the back office – had received responsible-gaming training.

The training aims to build awareness of problem gambling, dispel myths and enable OLG employees to respond appropriately to customer requests for help and information. Employees are trained to recognize problem behaviors that may indicate customers at risk and are provided with guidelines for bringing issues to designated managers, while managers are given the tools for responding to these situations.

OLG is also incorporating ongoing responsible-gaming training and messages into orientation for all new employees. And responsible-gaming messages are reinforced through a variety of employee communication vehicles including internal newsletters and staff intranet. OLG's responsible-gaming program is in line with the Ontario government's January 2005 announcement of its comprehensive gaming strategy, which includes an ongoing commitment to social responsibility and sustainable economic benefits.



Information Centres

On November 18, 2005, OLG opened two pilot Responsible Gaming Information Centres (RGICs) – one in Casino Windsor and another in the Niagara Fallsview Casino Resort to serve both Fallsview and Casino Niagara.

These RGICs are valuable on-site resources for both casino patrons and staff – promoting responsible gaming and providing information about safe practices and professional treatment options. While OLG provides funding, support and space, the centres are operated by the Responsible Gambling Council and staffed by independent problem-gambling-prevention specialists. Though it is still early, preliminary reports indicate that the centres have been well received and provide useful information to customers and employees.

Public Awareness

In March 2005, OLG launched a public-awareness advertising campaign to inform slot players of some risk factors that could lead to problem gambling. The ads were featured in print and on radio throughout the province. In November 2005 and March 2006, OLG launched four-week radio campaigns to dispel the most popular myths about slot machine play – informing listeners that every play on a slot machine has a random outcome and there is no way to predict the outcome of any play, no matter how long you play, when you play or how you activate the machine.

To monitor the impact of this and other responsible-gaming awareness initiatives in the general public, OLG initiated a telephone survey among the general public. A survey of 900 Ontarians in February 2005 established a baseline prior to the launch of the Responsible Gaming Code of Conduct. In April 2005 – immediately following the public launch of the Responsible Gaming Code of Conduct and the Problem Gambling Prevention Awareness Month – a second survey of 800 Ontarians was conducted.

A significant increase in awareness of OLG initiatives was evident between the first and second survey. Awareness of the slogan "Know your limit, play within it" increased significantly among the general population as did awareness of newspaper advertising about responsible gaming. Respondents in the second study also showed a higher awareness of popular misconceptions about the chances of winning at slot machines. The study will be repeated annually.

OLG also tracks customer awareness with an eight-question customer telephone survey. These monthly surveys help OLG to regularly monitor the effects of our responsible-gaming practices so that we can continue to provide our services in the most socially responsible manner possible.

Within Limits

For the third year in a row, in March, OLG lent its full support to Within Limits: Problem Gambling Prevention Month – an important initiative of the Responsible Gambling Council (RGC). The annual campaign is designed to increase awareness of risks and to prevent problem gambling. OLG displayed posters and brochures at select lottery retailers and bingo partners, hosted RGC information booths at all OLG gaming facilities and ran advertisements in the local papers of 45 communities across Ontario.

Advertising Guidelines

This year OLG's Corporate Marketing department created a document outlining the standards to be applied in all OLG advertising and marketing activities. These standards reflect the Responsible Gaming Code of Conduct as well as applicable regulations in Section 31 of the *Gaming Control Act, 1992* and exceed the guidelines of Advertising Standards Canada. The standards will ensure that marketing and communication strategies consciously avoid and exclude:

- appealing to minors
- promotion of irresponsible play
- implications that gaming may alleviate personal and financial debt or difficulties
- promotion of gaming as an alternative to employment or as a financial investment or as a means of recovering past financial losses
- endorsements suggesting play has contributed to success
- representation of people who appear to be intoxicated.

Community and Charity

OLG has a long tradition of giving back to the communities in which it operates and to others in need. This year the legacy continued.

SAULT AREA HOSPITAL
HÔPITAL DE SAULT-SAINTE-MARIE

In March 2006, OLG committed $750,000 over two years to a campaign for a new laboratory and a CT scan room at the Sault Area Hospital. Sault Ste. Marie is home to OLG corporate offices, a charity casino, and nearly 900 OLG employees and their families and this contribution reflects OLG's role as a good corporate citizen of the Sault.

This year OLG employees outdid their previous efforts for United Way – raising a total of $238,241 in the 2005 campaign, a five per cent increase over the previous year.

Ontario Public Service workplaces have been contributing to Federated Health Charities for 22 years and OLG has been part of that tradition for the past four. This year, employees contributed both money and time to numerous fundraising activities at OLG offices and facilities throughout the province. Together, they raised $208,350 for the member charities this year.

Reaching beyond local needs, OLG committed $1 million to the Hurricane Katrina Relief Effort. In addition, fundraising activities included donation boxes, silent auctions, vendor donations, one-time payroll deductions, social committee events, corporate matching donations and contributions from our commercial casinos. Efforts at the Niagara casinos alone, during one week in October, totaled $66,887.

Events

David Foster and Friends

In February 2006, OLG announced that Niagara Fallsview Casino Resort would host an international star-studded charity gala, David Foster and Friends. Andrea Bocelli will headline the event in November 2006 that will raise funds for the David Foster Foundation, which helps pay non-medical expenses such as transportation and accommodation for families with children who require organ transplants.

Trillium Great Grants

On November 3, 2005 OLG was lead sponsor at the Ontario Trillium Foundation's Great Grant Awards ceremony. Awards were presented in Arts and Culture, Environment, Human and Social Services, and Sports and Recreation. OLG support helped produce videos of the winners.

Recognition of Service

OLG joined the Ontario AMBER Alert child-abduction-warning system. It was the largest expansion of the Ontario AMBER Alert network since its establishment.

OLG received two prestigious awards this year for our active role in Ontario's AMBER Alert partnership. At the 2005 Ontario Showcase Awards of Excellence we received the Diamond Award. OLG was selected for a Gold Award by the National Quality Institute at the Public Sector Quality Fair held in Toronto in October.

Then, in the same month, the provincial government asked OLG to represent Ontario in Ottawa at GTEC – a week-long government technology showcase presenting technology-based products and services from around the world.

OLG's Corporate Security and Surveillance, Emergency Medical Response (EMR) group was recognized with a Bronze Award at the 2005 Public Sector Quality Fair for its successful Defibrillation Program. Under the program, there are two automatic external defibrillators at each of the six charity and aboriginal casinos and 17 slots sites and one at each of eight corporate offices, which are accessible to 400 EMR-trained security personnel who are on call to serve employees and the millions of patrons who visit our sites every year.

In July 2005, the Director of Fund Development for the Red Cross presented OLG with a certificate of recognition for its donation of more than $82,000 to the Tsunami Relief Efforts. OLG corporate employees were also recognized at the annual meeting of the Sault Ste. Marie and District Branch of the Canadian Red Cross for their $33,000 share in the OLG donation through payroll deductions and special events.

Innovation & **Renewal**

This fiscal year, the Lottery division continued as a critical contributor to OLG's revenue sources, through a culture of innovation and responsiveness to customers. More than 10,000 retailers and bingo-hall operators earned $171.5 million in commissions.

Over 75 millionaires were created this year, with cheque presentations in Toronto and Sault Ste. Marie. And more than 2,000 prizes were awarded through satellite prize offices located at OLG gaming facilities throughout the province – making it easier and more convenient for many of Ontario's big winners.

In 2006, OLG became the first lottery in North America to gain approval to test sales in Wal-Mart stores – the world's number one retailer and an important channel for future growth.

Work was also well underway for migration to a high-speed network linking retailers. The vendor-selection process was complete and contract negotiations well underway at year-end for this initiative that will bring improved service, faster transactions and lower costs.

Online Products

Online games remain top revenue generators in the Lottery division, accounting for 65 per cent of overall lottery revenues. As always the key to this continued success has been renewal and innovation.

LOTTO 6/49 $54 Million Jackpot

In October 2005, even the most casual gamers in the country were eyeing the chance to win the largest lottery prize in Canadian history with LOTTO 6/49. The excitement began with a bonus jackpot of $20 million on October 12, 2005. By October 26 the jackpot had grown to $54 million and was won by a single ticket in western Canada. Nationwide sales were $99,474,164, with Ontario sales totalling $41,786,666. The event generated great interest across the country and showed how fast jackpots can grow since the 2004 enhancements to the game design.

Lottery Sales and Prizes* by Game as of March 31, 2006

Product Groupings	Number of Games	Sales ($ millions)	Percentage of Total Sales	Prizes ($ millions)
Online games	16	$ 1,581.3	65.0%	$ 770.5
Sports games	4	229.2	9.4%	135.7
INSTANT games	76	588.0	24.2%	351.7
BINGO games	5	34.2	1.4%	22.7
Totals	101	$ 2,432.7	100.0%	$ 1,280.6

* Prizes exclude unclaimed and expired prizes.

PayDay Launch

In June 2005, after two years of research and consumer testing, OLG introduced its first new online game in more than five years and the first to offer an annuity as the top prize.

Now, every Thursday, Ontario lottery players have a chance to win $1,000 a week for life with PayDay. The game offers an annuity prize of $1,000 a week for life or a lump sum of $675,000.

For $2 a play, PayDay offers many ways to win. Players select one set of four numbers and the computer generates an additional 14 sets. The player's selection is eligible for the annuity prize, while the remaining sets of numbers are eligible to win prizes of $1,000, $20,000 and $50,000. One set of four numbers, ranging from one to 77, is drawn each Thursday. Players who match all four numbers in any of the prize categories win that prize. For every three numbers matched in any set of four, the prize is $25. Odds of winning any prize are 1 in 6.1. Total revenue from the game in 2005–2006 was $62 million.

PICK-4 Launch

In February 2006, OLG launched PICK-4, a new daily-draw lottery game with set prizes ranging from $200 to $5,000. The $1 game is similar to PICK-3 but has bigger prizes and more ways to win. Players select four numbers, ranging from 0 to 9, and choose either straight play or box play. Straight play requires matching all four winning digits in order. In box play, the four numbers can be matched in various ways. The odds of winning straight, for the $5,000 prize, are 1 in 10,000. The odds of winning a 24-way box, for the $200 prize, are 1 in 417. The number of winners in each prize category depends on the number of players and their selections. PICK-4 generated $4.6 million in revenue in fiscal 2006, following its February launch.

Increased SUPER 7 Rollover

LOTTO SUPER 7 continues to respond to demand for big, fast-growing jackpots. In January 2006, the Interprovincial Lottery Corporation eliminated the guaranteed $7.5 million jackpot level. The LOTTO SUPER 7 jackpot now starts at a guaranteed minimum of $2.5 million, with subsequent jumps guaranteed to be at least $5 million, $10 million, $12 million, $15 million, $17 million and $20 million. This prize-structure adjustment allows jackpots to reach exciting levels faster.

Sports

The best news for sports lotteries came this year with the return of professional hockey and the collaboration with Casino Niagara to launch Sports Section – now the largest single sports retailer in the province.

PROPS and POOLS

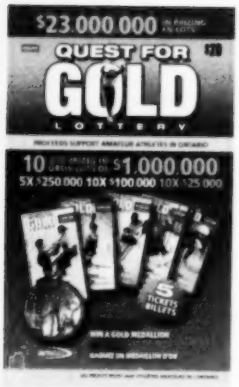
In September 2005, PRO*PICKS introduced enhancements to its PROPS and POOLS options. It is now easier for players to choose multiple options on the same selection slip. Each card can have up to 16 games, and players may box up to four outcomes for any single event – choosing various outcomes for both Visitor and Home – without the need to complete multiple selection slips. For PROPS, a new pay structure means players can determine their potential prize payout by multiplying the wager and odds together, similar to PRO•LINE.

The move to an odds-based format allows greater control of payout levels. The enhancements have led to a series of database-management improvements to the Sports Management System. Now all sports games will operate from one central driving engine – with reduced potential for errors in introducing and managing sports data and faster communication with retailers.

Sports Section

As part of Casino Niagara's $15-million revitalization project and representing a positive collaboration between the Lottery division and the casino, the Sports Section opened September 8, 2005. In this 2,000-square-foot hub for Sports lottery and off-track betting, customers can play CASINO PRO•LINE, CASINO POINT SPREAD, CASINO PROPS and the province-wide POOLS product while watching several sporting events simultaneously in a casino atmosphere. The Sports Section provides an advantage in the highly competitive Niagara region – attracting sports fans from both sides of the border.

Instants



Quest for Gold

January 11, 2006, saw the launch of the exciting new INSTANT game, QUEST FOR GOLD LOTTERY, in support of Ontario's amateur athletes. Each $20 QUEST FOR GOLD LOTTERY pouch contains five scratch tickets featuring images of Ontario amateur athletes and has one-in-six odds of winning a portion of $23 million in available prizes. There are ten top prizes of $1 million, five prizes of $250,000, ten prizes of $100,000 and ten prizes of $25,000, plus 250 limited-edition gold medallions produced by the Royal Canadian Mint.

Proceeds from the lottery are administered by the Ministry of Health Promotion to support more than 50 different sports, providing grants in three categories:

- direct athlete assistance
- enhanced coaching and high-performance training
- competitions.

More than 850 of Ontario's high-performance, amateur athletes will share in an anticipated $2.5 million in direct financial assistance from the QUEST FOR GOLD LOTTERY program, which is part of the broader government initiative, ACTIVE 2010, a Healthier Ontarians strategy.

Special 8

A new $7 national INSTANT game launched in February 2006 with over $45 million in available prizes. The fold-out scratch-and-play card contains eight different games and ten chances to win – with 3.51 odds of winning any prize, including 20 top prizes of $388,888 and an additional 20 prizes of $88,888 each.

Instant Texas Hold'em Poker

In September 2005, the popular Texas Hold'em poker game went INSTANT. The new $3 INSTANT game appeals to fans of televised games and experienced poker players alike. With four play areas and a $75,000 top prize, the game also deals players in to three chances to win a $10,000 buy-in for a seat at the renowned World Poker Tour in Las Vegas.

Bingo

*a*Link • ULTIMATE*Link* • LATE*Link*

Atlantic Superstar Bingo

The BIG LINK BINGO system, developed by OLG in the 1990s, uses a certified, computerized random-number generator and can link several venues to provide larger player pools and hence bigger jackpots. OLG patented the PC-based bingo gaming system in December 2003 and this year licensed the Atlantic Lottery Corporation (ALC) to use the technology. ALC launched its first linked game in January 2006 in Nova Scotia.

Bingo Revitalization

Four e-bingo pilot sites were launched this year to test a model designed to help revitalize Ontario's charitable bingo industry:

- Boardwalk Gaming, September 28th in Barrie
- Treasure Chest Bingo, November 1st in Kingston
- Kawartha Club Bingo, December 6th in Peterborough
- Boardwalk Gaming at Bingo One, January 24 in Sudbury.

Planning is underway for a fifth pilot site in Toronto.

In addition to the traditional paper bingo cards, the e-bingo model introduces play on computer terminals or hand-held devices for a more modern experience.

As part of the Bingo Revitalization Program, e-bingo is one aspect of the integrated efforts to update the bingo experience for players. Improved customer service and extensive renovations are other key elements, as is an evolution in the roles and responsibilities of the various bingo facilities' stakeholders: charities, service providers, municipalities and OLG. The pilot program will be assessed in 2006 to determine its effectiveness in reversing the trend of decline in bingo-fundraising in recent years. Preliminary results are encouraging and have met with strong support from the pilot charities, service providers and municipalities.

OLG's six charity and aboriginal casinos and 17 slots-at-racetrack operations together generated more than $1.9 billion in gaming revenues this fiscal year. From this, $73.7 million was paid directly to the host communities of charity and aboriginal casinos and slots at racetracks and $299.5 million was paid to the racetracks and their horse people.

These revenues and the spin-off tourism jobs in regions where these facilities are located and in the wider horse industry provide solid economic development benefits to the province.

Opening and Anniversaries

In early March 2006 Slots at Ajax Downs opened to the public. The slot facility features popular games and progressive jackpots, as well as a full-service restaurant with a bar and lounge.

In February 2006, two facilities celebrated anniversaries: Slots at Rideau Carleton Raceway celebrated its sixth anniversary and Slots at Hanover Raceway celebrated its fifth anniversary.

Regulatory approvals for a new track facility in Belleville were secured by the Belleville Racetrack Development Corporation (BRDC) and Belleville Agricultural Society. OLG and BRDC have confirmed that 200 machines would be allocated at this new location and, by year-end, the draft siteholder agreement and preliminary site plan were being reviewed and discussions with the municipality had begun.

Ticket In – Ticket Out

A pilot of Ticket In – Ticket Out (TITO) technology, also known as EZ Pay, was launched at the Slots at Woodbine Racetrack in August 2005 and, based on the positive results, the technology was introduced at the Slots at Ajax Downs and is to be introduced at 16 more gaming facilities during fiscal 2007.

The technology means players no longer need to deal with coins or wait for hopper fills. The technology also reduces coin-handling by staff and related injuries. It also increases play time and revenue per machine and cuts costs related to the operation and maintenance of slot machines, coin acceptors and coin hoppers.

While TITO does require some orientation for both staff and patrons, it is becoming standard in the gaming sector, and its introduction is part of the OLG tradition of remaining competitive and responsive to customer needs.

Charity Casinos – Economic Impact of Operations as of March 31, 2006

Facility	Opening Date	Number of Employees	Annual Payroll ($ thousands)	Revenue to Municipality* ($ thousands)	Number of Patrons (thousands)	Number of Slots	Gaming Tables
Brantford Charity Casino	Nov 17, 1999	990	$ 39,047	$ 3,742	1,684	514	55
Casino Sault Ste. Marie	May 19, 1999	363	15,005	1,529	900	452	17
Great Blue Heron Charity Casino Slots Facility	May 3, 2000	***	***	****	1,341**	525	*****
Point Edward Charity Casino	Apr 18, 2000	581	23,583	2,303	866	322	27
Thousand Islands Charity Casino	Jun 20, 2002	491	20,221	3,780	1,012	523	22
Thunder Bay Charity Casino	Aug 28, 2000	447	18,611	2,425	1,368	452	15
Totals		2,872	$ 116,468	$ 13,779	7,173	2,788	136

Note: The Great Blue Heron Charity Casino is owned by the Mississaugas of Scugog Island First Nation and is operated by Great Blue Heron Gaming Company, which is wholly owned by Casino Austria, Fantasy Gaming and Sonco Gaming. OLG is responsible for the management of the slot facility only. The Great Blue Heron Charity Casino is a true Aboriginal casino and a major First Nations initiative. The Mississaugas of Scugog Island First Nation Indian Band (#34) formed the Baagwating Community Association, a non-profit charitable association, to conduct and manage the table game operations.
The Ontario Government receives 20% of gaming revenue and 100% of net profits from the slots facility at Great Blue Heron Charity Casino.

* 5% of revenue from slot machines up to 450 machines and 2% of revenue from slots over 450.
** Great Blue Heron patron figures are based on entire facility.
*** 280 employees of Great Blue Heron Gaming Company work in the slot facility. Annual payroll is $13.0 million.
**** As the host community of the slot machines at Great Blue Heron Charity Casino, the Mississaugas receive 5% of the revenue from the slot machines.
***** While Great Blue Heron Charity Casino offers table games, OLG management and reporting is limited to the slot facility.

Slots at Racetracks – Economic Impact of Operations as of March 31, 2006

Facility	Opening Date	Number of Employees	Annual Payroll ($ thousands)	Number of Patrons (thousands)	Number of Slots	Revenue to Tracks* ($ thousands)	Revenue to Horse People* ($ thousands)	Revenue to Municipality* ($ thousands)
Ajax Downs	Feb 28, 2006	210	$ 857	142	250	$ 718	$ 718	$ 359
Clinton Raceway	Aug 24, 2000	80	3,492	193	108	1,209	1,209	605
Dresden Raceway	Apr 18, 2001	82	3,695	215	108	1,203	1,203	601
Flamboro Downs	Oct 11, 2000	340	13,727	1,500	789	11,462	11,462	4,327
Fort Erie Race Track	Sep 9, 1999	338	15,517	1,187	1,168	8,699	8,699	2,733
Georgian Downs	Nov 27, 2001	221	8,863	1,055	451	9,966	9,966	4,981
Grand River Raceway	Dec 4, 2003	148	5,851	640	200	3,339	3,339	1,669
Hanover Raceway	Feb 19, 2001	88	3,812	287	110	1,538	1,538	769
Hiawatha Horse Park	May 8, 1999	173	7,629	691	452	3,472	3,472	1,732
Kawartha Downs	Nov 22, 1999	180	8,200	849	450	6,331	6,331	3,166
Mohawk Racetrack	Aug 10, 1999	304	13,241	1,244	862	15,703	15,703	5,755
Rideau Carleton Raceway	Feb 16, 2000	346	14,855	1,490	1,250	11,000	11,000	3,388
Sudbury Downs	Nov 26, 1999	168	7,274	547	343	4,154	4,154	2,077
Western Fair Raceway	Sep 28, 1999	355	14,897	1,324	750	9,412	9,412	3,577
Windsor Raceway	Dec 16, 1998	270	11,907	831	740	6,360	6,360	2,419
Woodbine Racetrack	Mar 27, 2000	794	37,184	4,317	1,946	53,371	53,371	14,566
Woodstock Raceway	Jun 20, 2001	87	3,933	323	112	1,794	1,794	897
Totals		4,184	$ 174,935	16,835	10,089	$ 149,729	$149,729	$ 53,619

* Tracks and horse people each receive 10% of revenue from slots; municipalities receive 5% of revenue from slots up to 450 machines and 2% of revenue from slot machines over 450.

The Competitive **Edge**

Commercial casinos in Ontario had a year marked by innovation, renovation and top-notch entertainment.

The work paid off with revenues of almost $1.67 billion for 2005-2006 - an increase over last year of nearly $94 million - proving that OLG's commercial casinos continue to meet the challenges of increasing competition by maintaining the highest quality vacation and entertainment destinations.

Niagara Casinos

The Niagara Fallsview Casino Resort and Casino Niagara offer tourists to the Niagara region a host of options for gaming, entertainment, spa services and food to tempt any taste. Their facilities and attractions complement the natural tourism draws of the region. And the casinos are working hard to ensure the region's continued success as a tourist destination.

In the summer of 2005, Niagara Fallsview Casino Resort and Casino Niagara rallied partners in Niagara's tourism sector - the Niagara Falls Chamber of Commerce, the Niagara Falls Bridge Commission, the Buffalo and Fort Erie Public Bridge Authority and the Niagara Parks Commission - to form the Easy Crossing Council to combat negative perceptions held by many American travellers concerning cross-border travel.

Casino Niagara

Full and Fabulous Makeover

This year OLG invested $12 million in a major renovation at Casino Niagara, complementing Fallsview's elegance and sophistication with a design focus on comfort and fun including:

- the Sports Section lounge that boasts a wall of 26 high-definition televisions featuring sporting events from around the world, a sports ticker providing scores and results and Canada's only sports wagering facility with multi-sports wagering and off-track betting
- a radio-broadcast booth at the heart of the casino that provides a facility where radio personalities from stations in southern Ontario and western New York can broadcast live
- a permanent stage on the gaming floor that provides a venue for live bands
- a 12-table poker room that is open 24 hours a day.

Niagara Fallsview Casino Resort

Spectacular Summer

From June 20 to 24, Niagara Fallsview Casino Resort teamed up with Unilever and TSN to host both the eastern qualifier and the national finals of the first-ever Degree Poker Championship. The exciting finish of the winner, a Vancouver native, was televised in a multi-episode package during September 2005.

Inside Entertainment

Fallsview's Avalon Ballroom hosted some of the biggest names in the entertainment business in fiscal 2005–2006, including Michael Bublé, B.B. King, Tony Bennett, Kenny Rogers, Hootie and the Blowfish, the Gypsy Kings, Macy Gray, Burton Cummings, Julio Iglesias, Smokey Robinson, George Thorogood and the Destroyers, Huey Lewis and the News, Three Dog Night, Gordon Lightfoot and Jann Arden.

Community Contribution

On November 25, the United Way of Niagara Falls held its wrap-up luncheon and Fallsview presented two cheques as part of the luncheon program – the corporate donation of $100,000 and the associate campaign donation of $193,403.62.

Awards

Fiscal 2005–2006 was a banner year for awards at Niagara Fallsview Casino Resort:

- Economic Impact Award from the Niagara Falls Chamber of Commerce in recognition of the resort's positive impact on Niagara's business and charitable sectors
- Specialty Venue Award from Canadian Music Week for the Avalon Ballroom
- Wine Spectator's Award of Excellence for the depth and breadth of the wine cellar at 17 Noir
- CAA/AAA Four Diamond Awards for both 17 Noir and the Fallsview hotel.

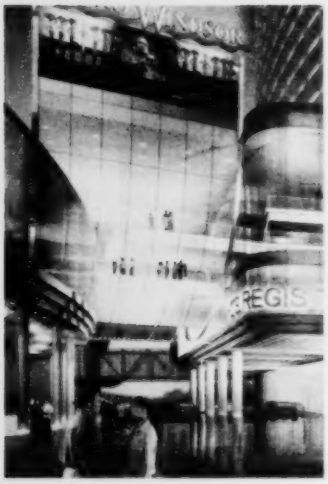
Casino Windsor

This year Casino Windsor moved forward decisively with a makeover and expansion to rival the best casino resorts in North America. Facing the challenge of increased cross-border competition, Casino Windsor looks to the future with a continued commitment to excellence.

Construction Achievements

The construction phase of the casino's $400-million expansion and renovation project began in the summer of 2005. By year-end several major phases had been completed and others were well underway.

The spectacular Market Buffet opened to the public December 16 to outstanding reviews and has been busy ever since. Located on the former atrium level, the buffet is Windsor's largest restaurant, boasting 26,000 square feet to comfortably accommodate up to 650 diners. Customers can choose from a wide selection of freshly made menu items from seven distinct eateries as well as the centrepiece dessert station.



By year-end, the seven-month renovation of the Motorcoach Greeting Area – the former Chatham Street public entrance – was only six days away from completion. This spacious new area offers a variety of amenities to improve the experience of guests arriving by motorcoach. It includes an expanded bus bay area to accommodate six buses; a larger, more comfortable bus lounge area; an expanded vestibule with seating; a full-service customer service desk; LCD screens with bus arrival and departure information and marketing messages; expanded washrooms; and public telephones.

Under Renovation

Renovations are underway at the former Showtime Lounge to create a stunning new sports lounge designed to appeal to more than just the sports fan. Scheduled for completion in September 2006, this high-end, sleek venue will offer a full bar and food service while customers can catch the game on the latest broadcast technology.

Renovations at the Atrium Rotunda on Riverside Drive are also underway to create a dynamic entranceway.

Architectural renderings for Windsor renewal

Renewal Continues

The new 22-storey hotel was one of the first areas of the expansion site to take shape this year, with part of the three floors of underground parking and the street level underway by year-end. This lays the ground for the new skybridge extension over McDougall Street, stretching along the length of the building from Pitt to Chatham Streets. The removal of the sidewalks and landscaping in this area are scheduled for the new fiscal year. When completed, the extension will connect the new and current facility so that they will appear to be one large complex.

The full renovation and expansion project is scheduled for completion by the end of 2007.

Awards

Casino Windsor's extraordinary service and world-class amenities continue to be recognized both locally and internationally.

Casino Player Magazine awarded Casino Windsor the Best Overall Casino Resort in the Detroit region, and 22 other first-place and eight second-place awards. Over 325,000 international Casino Player readers vote for their favourite properties in a variety of categories each year.

Strictly Slots Magazine's annual Best of Slots reader poll voted Casino Windsor Best in Canada and number one in 14 categories in the Detroit region. Awards included: Best Canadian Casino, Best Overall Casino, Best Slot Hosts, Best Room Comps and Best Slot Club Promotions.

In March 2006 the Canadian and American Automobile Associations once again awarded Casino Windsor Hotel with their Four Diamond top rating.

Casino Rama

Casino Rama remains one of the province's most popular casinos thanks to its outstanding customer service and community-outreach programs that benefit thousands through both donations and volunteer activity.

Entertainment

World-class entertainment is just one of the reasons that Rama continues to attract new patrons and repeat customers.

Gracing the stage of the Entertainment Centre this year, were some of entertainment's biggest stars including Keith Urban, Dennis Miller, Joan Rivers, Lisa Marie Presley, Bruce Willis and the Accelerators, Lionel Richie, Carole King, Tom Jones, ZZ Top, Tim McGraw, Gretchen Wilson, Toni Braxton, Liza Minnelli and James Brown.

Community Connections

Since opening, Casino Rama has sponsored hundreds of community events and services. This year, Casino Rama also began to sponsor workshops for non-profit organizations.

The first of these workshops responded to demand from local groups for a better understanding of media relations. Casino Rama invited a local expert to conduct sessions with 30 participants including board members, executive directors, staff and volunteers of various organizations. The workshop leader provided useful skills and information. Participants also benefitted from the very valuable networking opportunity that this meeting of peers permitted.

Casino Rama was proud to host and facilitate the event – one of the many ways in which the casino responds to the needs of the local non-profit community.

Awards

For the ninth straight year – every year since its opening – Casino Rama took top honours in the *Toronto Sun* Readers' Choice Awards as Ontario's Favourite Casino. The casino was also nominated again this year in the Venue of the Year category by the Academy of Country Music – the only Canadian venue ever to be so honoured.

Management's Responsibility for **Annual Reporting**

The accompanying consolidated financial statements of the Ontario Lottery and Gaming Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

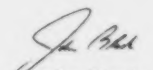
The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Where required, management has made informed judgements and estimates in accordance with Canadian generally accepted accounting principles.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit and Risk Management Committee, which is composed entirely of directors who are neither officers nor employees of the Corporation. The Audit and Risk Management Committee reviews the financial statements and recommends them to the Board for approval. This Committee meets periodically with management, internal audit and the external auditors.

To discharge its responsibility, management maintains an appropriate system of internal control to provide reasonable assurance that relevant and reliable consolidated financial statements are produced and that the Corporation's assets are properly safeguarded. The Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their applications, on an ongoing basis. The reports prepared by the internal auditors are reviewed by the Committee. The internal auditors have free independent access to the Committee.

Grant Thornton LLP and KPMG LLP, the independent auditors appointed by the Board of Directors upon the recommendation of the Audit and Risk Management Committee, have examined the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements. The independent auditors have full and unrestricted access to the Committee.

Duncan Brown
Chief Executive Officer
May 12, 2006



John Black
Chief Financial Officer
May 12, 2006

Auditors' **Report**

To the Board of Directors of the Ontario Lottery and Gaming Corporation and to the Minister of Public Infrastructure Renewal

We have audited the consolidated balance sheet of the Ontario Lottery and Gaming Corporation as at March 31, 2006 and the consolidated statement of income, cash flows, changes in Due to the Province of Ontario and equity in capital assets for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
May 12, 2006

Grant Thornton LLP

Chartered Accountants
Sault Ste. Marie, Canada
May 12, 2006

Consolidated **Balance Sheet**

As at March 31, 2006 (in thousands of dollars)

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	$ 603,669	$ 603,300
Accounts receivable	48,641	42,150
Due from Falls Management Company (Note 8)	–	3,665
Prepaid expenses and other	56,744	61,897
Current portion of loans receivable (Note 4)	7,904	8,135
	716,958	719,147
Pre-opening and deferred expenditures (Note 3)	12,081	16,834
Loans receivable (Note 4)	51,833	37,144
Capital assets (Note 5)	2,293,833	2,235,431
Assets contributed to Chippewas of Mnjikaning (Note 6)	16,139	17,221
Cash and short-term investments held for First Nations (Note 7)	156,346	116,776
	$ 3,247,190	$ 3,142,553
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 328,691	$ 278,593
Due to operators (Note 8)	48,871	45,624
Due to Chippewas of Mnjikaning (Note 8)	1,138	1,398
Due to Government of Canada	6,361	9,655
Deferred revenues	16,875	18,040
Current portion of long-term liabilities (Note 9)	263,952	168,898
	665,888	522,208
Due to First Nations (Note 7)	156,346	116,776
Long-term liabilities (Note 9)	378,511	642,462
Asset retirement obligation	1,081	–
Equity		
Due to Province of Ontario	161,459	218,203
Reserves (Note 2)	233,616	218,834
Equity in capital assets	1,650,289	1,424,070
	2,045,364	1,861,107
	$ 3,247,190	$ 3,142,553

Commitments (Notes 4, 8 and 10)
Contingencies (Notes 8 and 11)
See accompanying notes to consolidated financial statements.

On behalf of the Board

Michael Gough, Chair

Marlene McGraw, Director

Consolidated **Statement of Income**

Year ended March 31, 2006 (in thousands of dollars)

	2006	2005
Revenues		
Lotteries and bingo	$ 2,432,673	$ 2,333,934
Commercial casinos	1,666,851	1,572,901
Charity casinos and racetrack slot operations	1,924,225	1,947,220
	6,023,749	5,854,055
Operating expenses		
Lotteries and bingo	1,699,428	1,652,525
Commercial casinos	1,562,424	1,446,243
Charity casinos and racetrack slot operations	1,019,000	1,028,755
	4,280,852	4,127,523
Income before the undernoted	1,742,897	1,726,532
Interest and other income	42,795	25,284
Interest on long-term debt	(33,905)	(31,472)
Foreign exchange gain	20,012	19,623
Net income	$ 1,771,799	$ 1,739,967

Segmented information (Note 12)
See accompanying notes to consolidated financial statements.

Consolidated **Statement of Cash Flows**

Year ended March 31, 2006 (in thousands of dollars)

	2006	2005
Cash derived from (applied to):		
Operations		
Net income	$ 1,771,799	$ 1,739,967
Amortization of capital assets	208,803	203,455
Amortization of non-capital assets	9,496	16,339
Accretion expense	71	–
Loss on disposal of capital assets	7,728	148
Change in non-cash operating working capital:		
Accounts receivable	(6,491)	7,491
Due from Government of Canada	–	1,432
Prepaid expenses and other	5,153	(11,368)
Accounts payable and accrued liabilities	50,098	22,270
Due to operators	3,247	13,326
Due to Chippewas of Mnjikaning	(260)	193
Due to Government of Canada	(3,294)	9,655
Deferred revenues	(1,165)	2,630
	2,045,185	2,005,538
Financing		
Increase in long-term liabilities	7,752	794,000
Repayments of long-term liabilities	(176,650)	(141,781)
	(168,898)	652,219
Investing		
Due from Falls Management Company	3,665	669
Pre-opening and deferred expenditures	(3,660)	(10,873)
Issuance of loans receivable	(22,043)	(3,088)
Repayment of loans receivable	7,585	9,699
Capital expenditures	(277,618)	(894,035)
Proceeds on disposal of capital assets	3,695	3,158
	(288,376)	(894,470)
Other		
Payments to Province of Ontario	(1,486,408)	(1,628,746)
Distributions to First Nations	(100,820)	(101,089)
Increase in due to First Nations	(314)	9,655
	(1,587,542)	(1,720,180)
Increase in cash and cash equivalents	369	43,107
Cash and cash equivalents, beginning of year	603,300	560,193
Cash and cash equivalents, end of year	$ 603,669	$ 603,300
Supplemental disclosure of cash flow information:		
Cash interest received	$ 13,336	$ 10,142
Cash paid for interest	34,390	33,648

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in **Due to Province of Ontario**

Year ended March 31, 2006 (in thousands of dollars)

	2006	2005
Net income	$ 1,771,799	$ 1,739,967
Add (deduct)		
Capital expenditures, net	(266,195)	(890,730)
Amortization of capital assets	208,803	203,455
Accretion expense	71	–
Repayments of long-term liabilities	(176,650)	(141,781)
Increase in long-term liabilities	7,752	794,000
Distributions to First Nations	(101,134)	(91,434)
Transfers to reserves, net	(14,782)	(19,355)
	(342,135)	(145,845)
Current year amount due	1,429,664	1,594,122
Payments to Province of Ontario	(1,486,408)	(1,628,746)
Amount due less payments	(56,744)	(34,624)
Due to Province of Ontario, beginning of year	218,203	252,827
Due to Province of Ontario, end of year	$ 161,459	$ 218,203

See accompanying notes to consolidated financial statements.

Consolidated Statement of **Equity in Capital Assets**

Year ended March 31, 2006 (in thousands of dollars)

	2006	2005
Balance, beginning of year	$ 1,424,070	$ 1,389,014
Capital expenditures, net	266,195	890,730
Amortization of capital assets	(208,803)	(203,455)
Accretion expense	(71)	–
Repayments of long-term liabilities	176,650	141,781
Increase in long-term liabilities	(7,752)	(794,000)
Balance, end of year	$ 1,650,289	$ 1,424,070

See accompanying notes to consolidated financial statements.

Notes to Consolidated **Financial Statements**

Year ended March 31, 2006 (tabular amounts in thousands of dollars)

The Ontario Lottery and Gaming Corporation (the Corporation) was established without share capital on April 1, 2000 pursuant to the *Ontario Lottery and Gaming Corporation Act, 1999*. The Corporation is a Crown agency of the Ontario government and is responsible for conducting and managing lottery games, five charity casinos and the Great Blue Heron Charity Casino Slot Machine Facility, seventeen slot operations at racetracks and four commercial casinos in the Province of Ontario.

The Corporation has entered into operating agreements with Windsor Casino Limited, CHC Casinos Canada Limited, Falls Management Company and Great Blue Heron Gaming Company for the operation of Casino Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort and the Great Blue Heron Charity Casino Slot Machine Facility, respectively.

The assets, liabilities and operations of the Great Blue Heron Charity Casino Slot Machine Facility are included in these financial statements. The operating results are included with the results of the charity casinos and racetrack slot operations. These financial statements do not include other operations carried out at the Great Blue Heron Charity Casino.

1. Significant accounting policies

a) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its 100 per cent owned subsidiaries.

In addition, the consolidated financial statements combine the financial position and results of operations of the commercial casinos at Casino Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort (Fallsview), and of the Great Blue Heron Charity Casino Slot Machine Facility.

b) Revenue recognition

Revenue from lottery games, for which results are determined based on a draw, is recognized when the draw takes place. Revenue for future draws is deferred and recognized when the draw takes place. Revenue from instant games is recognized when the ticket is activated for sale by the retailer. Revenue from sports wagering games and bingo gaming is recognized when the ticket is sold to the customer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

Gaming revenue from slot and table game operations represents the net win from gaming activities, which is the difference between amounts earned through gaming wagers less the payouts from those wagers.

Non-gaming revenue includes revenue from hotel, food and beverage, entertainment centre and other services and is recognized at the time the services are rendered to patrons. This also includes the retail value of accommodations, food and beverage and other services provided to patrons on a complimentary basis.

Year ended March 31, 2006 (tabular amounts in thousands of dollars)

c) Promotional allowances

Promotional allowances include the retail value of accommodation, food and beverage and other goods and services provided on a complimentary basis to patrons. The player clubs at the casinos and slot facilities allow patrons to earn points based on the volume of play. These points are accrued as a liability based on estimated redemption and are redeemable for complimentary goods and services and/or cash rebates. Promotional allowances include the value of the points as they are earned.

Promotional allowances also include the retail value of coupons (hotel, food and beverage and other goods and services) and other incentives provided to the patrons when these coupons are redeemed. The retail value of these coupons is included in revenue.

The estimated costs of providing these promotional allowances have been included as expenses in the Consolidated Statement of Income.

d) Cash and cash equivalents

Cash equivalents are defined as liquid investments that have a term to maturity at the time of purchase of less than 90 days.

e) Pre-opening and deferred expenditures

Certain expenditures, consisting of compensation, consulting and other costs incurred in connection with the development and opening of gaming sites, are deferred and amortized over three years, commencing with site opening.

Expenditures, consisting of compensation, consulting and other costs incurred with the development of a management information system, are deferred and amortized over a period not exceeding five years. Other deferred expenditures, incurred as a result of the funding of the construction of facilities for the Chippewas of Mnjikaning, are amortized over the term of the related debt.

f) Capital assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	10 to 50 years
Furniture and fixtures	2 to 10 years
Leasehold improvements	4 to 14 years
Lottery gaming assets	3 to 7 years
Casino and racetrack slot operations gaming assets	2 to 10 years

Capital assets are amortized when brought into operations.

Construction in progress and assets not in use are stated at cost. Costs will be amortized commencing upon completion of the related project. Interest on debt used to finance major additions to capital assets is capitalized during the construction phase. The interest cost is determined using the interest rate on incremental debt incurred by the Corporation to finance these capital assets. Interest capitalized is amortized over the same period as the related asset.

Year ended March 31, 2006 (tabular amounts in thousands of dollars)

g) Impairment of long-lived assets

Long-lived assets, including pre-opening and deferred expenditures, assets contributed to Chippewas of Mnjikaning and capital assets, subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset, including cash flows that accrue to the Province of Ontario. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer amortized. The asset and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

At March 31, 2006 and March 31, 2005, no impairments in the carrying value of these assets existed.

h) Asset retirement obligations

The Corporation records the fair value of an asset retirement obligation as a liability in the year in which it is incurred and can be reasonably estimated. This liability is associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Corporation also records a corresponding asset that is amortized over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

Accordingly, the Corporation has recognized a discounted liability associated with obligations arising from provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms.

The adjustment to leasehold improvements in respect of asset retirement costs is amortized into income on a straight-line basis over the remaining life of the leases. For the year ended March 31, 2006, the Corporation recorded amortization expense of $226,000 in the Consolidated Statement of Income. The Corporation recorded a liability of $1,081,000 for the estimated present value of the costs of retiring leasehold improvements at the maturity of the leases and recorded deferred asset retirement costs of $784,000.

The gross amount of the obligation is $1,285,000, which is expected to be paid out in two to four years. The credit adjusted risk-free rate is seven per cent. The accretion expense for the year was $71,000.

i) Assets contributed to Chippewas of Mnjikaning

Assets contributed to Chippewas of Mnjikaning, consisting primarily of funding for the construction of a community centre, senior centre and certain infrastructure facilities, are amortized over the term of the Casino Rama ground lease.

Year ended March 31, 2006 (tabular amounts in thousands of dollars)

j) Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the year-end exchange rates. Consolidated Statement of Income items are translated at the rate of exchange in effect at the transaction date. Translation gains and losses are included in the Consolidated Statement of Income in the period in which they arise.

k) Derivative financial instruments

Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning, is party to certain derivative financial instruments, principally interest rate swap contracts, used to manage its exposure to interest rate fluctuations on the non-revolving term loan (Note 9). Casino Rama Inc. does not enter into financial instruments for trading or speculative purposes. The policy adopted is to formally designate each derivative financial instrument as a hedge of a specifically identified debt instrument. The Corporation believes the derivative financial instruments are effective as hedges, both at inception and over the term of the instrument; as the term to maturity, the (notional) principal amount and the interest rate basis in the instruments all match the terms of the portion of the debt instrument being hedged.

Interest rate swap agreements are used as part of the Corporation's program to manage the fixed and floating interest rate mix of the Corporation's total debt portfolio and related overall cost of borrowing. The interest rate swap agreement involves the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and is recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to or receivable from the counterparties is included as an adjustment to accrued interest. The fair value of the interest rate swap contracts was calculated based on market conditions at year-end, supplemented with a quote from a financial institution. The fair value represents the amount that would be paid to terminate or replace the contracts. There are no present plans to terminate or replace significant portions of the contracts.

Gains and losses on terminations of interest rate swap agreements are deferred on the balance sheet and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event of early extinguishment of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the statement of income at the time of extinguishment.

For those instruments that do not meet the above criteria, variations in their fair value are marked-to-market on a current basis, with the resulting gains or losses recorded in or charged against income.

l) Concentration of credit risk

The Corporation has financial instruments that potentially expose it to a concentration of credit risk. The instruments consist of cash equivalents, accounts receivable and loans receivable. Cash equivalents consist of deposits with major commercial banks. Accounts receivable include credit provided to retailers of lottery products and patrons of commercial casinos. Loans receivable consist of loans to racetrack operators and municipalities. The Corporation performs ongoing credit evaluations of retailers, patrons, racetrack operators and municipalities and maintains reserves for potential credit losses.

Year ended March 31, 2006 (tabular amounts in thousands of dollars)

m) Financial instruments

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, due from Falls Management Company, due from/to Government of Canada, loans receivable, cash and short-term investments held for First Nations, accounts payable and accrued liabilities, due to operators, due to Chippewas of Mnjikaning, due to First Nations and long-term liabilities. The fair value of these financial instruments, excluding loans receivable and long-term liabilities, approximates carrying amounts due to the short maturities of these instruments. The fair value of loans receivable approximates carrying value prior to consideration of the allowance for loan losses and is estimated by discounting the future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and similar remaining maturities. The fair value of the long-term liabilities approximates carrying value and is calculated by discounting future cash flows using rates currently available for similar terms and maturities.

n) Guarantees

The Corporation has adopted the disclosure provisions related to the Canadian Institute of Chartered Accountants' Accounting Guideline No. 14, "Disclosure of Guarantees." There are no guarantees that require disclosure in the financial statements.

o) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant estimates are used in determining, but are not limited to, the valuation of markers receivable, inventory valuation, valuation of loans receivable, the useful lives of all depreciable assets, the recoverability of capital assets, unclaimed prize liability, asset retirement obligations, the players club point provision and the outstanding chip and token liability. Actual results could differ from those estimates.

p) Recent Canadian accounting pronouncements

Non-monetary transactions

In 2005, the CICA issued Handbook Section 3831, Non-monetary Transactions (CICA 3831), replacing Section 3830, Non-monetary Transactions. CICA 3831 requires that an asset exchanged or transferred in a non-monetary transaction must be measured at its fair value, except when: the transaction lacks commercial substance; the transaction is an exchange of a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange; neither the fair value of the asset received nor the fair value of the asset given up is reliably measurable; or the transaction is a non-monetary non-reciprocal transfer to owners that represents a spin-off or other form of restructuring or liquidation. In these cases, the transaction must be measured at the carrying value. The new requirements are effective for transactions occurring on or after April 1, 2006. The Corporation does not expect that this new standard will have a material impact on its financial statements.

Year ended March 31, 2006 (tabular amounts in thousands of dollars)

2. Restricted cash

Included in cash and cash equivalents are the below-noted restricted amounts, which are held in separate accounts.

	2006	2005
Reserves		
Capital renewals	$ 122,380	$ 117,792
Operating	81,506	74,109
Severance	29,730	26,933
	233,616	218,834
Prize funds on deposit	31,961	29,685
Term loan proceeds	17,274	24,352
	$ 282,851	$ 272,871

The Corporation has established cash reserves at the commercial casinos in accordance with their respective operating agreements for the following purposes:

i) capital renewals reserves for capital asset additions other than normal repairs or major renovations
ii) operating reserves to satisfy specified obligations in the event that revenue will be insufficient to meet such obligations, and
iii) severance reserve to satisfy certain obligations of the Corporation arising from the termination or layoff of employees of an operator in connection with the termination of an operator

Prize funds on deposit are funds set aside representing the estimate of gross prizes outstanding less an estimate for prizes not expected to be claimed by players.

Term loan proceeds represent restricted cash that was to be used for construction purposes at Niagara Fallsview Casino Resort and Casino Rama.

Cash and cash equivalents include bank term deposits amounting to $67,423,000 (2005 – $69,876,000) at an interest rate of 3.6 to 3.7 per cent (2005 – 2.35 to 2.45 per cent).

3. Pre-opening and deferred expenditures

	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Pre-opening expenditures				
Commercial casinos	$ 18,580	$ 14,671	$ 3,909	$ 7,771
Charity casinos and racetrack slot operations	11,618	6,919	4,699	2,761
	30,198	21,590	8,608	10,532
Deferred expenditures	25,624	22,151	3,473	6,302
	$ 55,822	$ 43,741	$ 12,081	$ 16,834

Year ended March 31, 2006 (tabular amounts in thousands of dollars)

4. Loans receivable

The Corporation has loaned and is committed to loan funds to certain racetrack operators for the purposes of renovating or constructing buildings to accommodate the Corporation's slot machine facilities. Security is provided by mortgages and general security agreements covering the racetrack operators' assets. The loans bear interest based on the bank's prime rate and are repayable over periods ranging from one to fifteen years. The amounts will be repaid under an agreed upon formula by withholding from commissions that would otherwise be payable to the racetrack operators. The Corporation has also advanced funds to certain municipalities for purposes of infrastructure improvements. The amounts will be recovered from the municipal commissions otherwise payable.

During the year funds were advanced to a racetrack operator for which the repayment is conditional upon attaining government approval for the expansion of this property. The borrower's requirement to repay the conditional loan is dependant upon the Corporation providing written notice, within five years of the date of opening of the site, that an expansion will proceed. As at March 31, 2006 $8,500,000 had been advanced and has been included in loans receivable based on the Corporation's expectation that governmental approval will be obtained and written notice will be provided to the borrower.

The Corporation's maximum remaining commitment as at March 31, 2006 is $7,500,000 to one racetrack operator which relates to the conditional loan referred to in the preceding paragraph and $2,300,000 to two municipalities.

5. Capital assets

	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Land	$ 139,235	$ –	$ 139,235	$ 133,752
Buildings	1,410,221	123,916	1,286,305	1,283,850
Furniture and fixtures	573,276	370,404	202,872	210,758
Leasehold improvements	561,094	258,633	302,461	313,030
Lottery gaming assets	163,835	81,308	82,527	98,590
Casino and racetrack slot operation gaming assets	537,795	314,212	223,583	193,158
Construction in progress and assets not in use	56,850	–	56,850	2,293
	$ 3,442,306	$ 1,148,473	$ 2,293,833	$ 2,235,431

Amortization for the year was $208,577,000 (2005 – $203,455,000). During the year the Corporation capitalized interest amounting to nil (2005 – $2,337,000).

6. Assets contributed to Chippewas of Mnjikaning

	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Assets contributed to Chippewas of Mnjikaning	$ 32,337	$ 16,198	$ 16,139	$ 17,221

Year ended March 31, 2006 (tabular amounts in thousands of dollars)

7. Cash and short-term investments held for First Nations

	2006	2005
Segregated bank account, beginning of year	$ 110,821	$ 73,518
Distributions to the segregated bank account during the year	35,620	35,238
Interest earned during the year	3,636	2,065
Segregated bank account, end of year	150,077	110,821
Current distribution due to First Nations	6,269	5,955
	$ 156,346	$ 116,776

On June 9, 2000, the Corporation, the First Nations of Ontario and the Province of Ontario entered into a revenue agreement that entitles the Ontario First Nations to the net revenues, as defined, from the operation of Casino Rama. Under the agreement, the Corporation is required to distribute the net revenues from the operation on a monthly basis.

The Casino Rama Revenue Agreement requires that, commencing July 31, 2001, the Corporation retain 35 per cent of the net distributions from Casino Rama in a segregated bank account if the Corporation has not received a joint direction from the Chiefs of Ontario and the Chippewas of Mnjikaning with respect to a new revenue distribution formula. As at March 31, 2006, the Corporation has not received this direction and accordingly has retained 35 per cent of the net distributions in a segregated interest-bearing bank account. This matter is currently the subject of an action brought by the Chippewas of Mnjikaning against the Province of Ontario and the Corporation and until the matter is decided by the Courts or, alternatively, the Chippewas of Mnjikaning and the Chiefs of Ontario reach agreement on a new revenue distribution formula, the Corporation is required to retain these funds.

The payment related to the monthly distribution of the net revenue for March 2006 is included above as Current distribution due to First Nations.

8. Related party transactions

a) Under the terms of the development and operating agreements for each of the commercial casinos and the Great Blue Heron Charity Casino Slot Machine Facility each operator is entitled to receive an operator's fee calculated as a percentage of gross revenues and as a percentage of net operating margin, both as defined in each of the related development and operating agreements. The operators of the casinos are as follows: Casino Windsor - Casino Windsor Limited, which is owned equally by Harrah's Entertainment, Inc. (previously Caesar's Entertainment, Inc.), and a wholly owned subsidiary of Hilton Hotels Corporation; Casino Niagara and Fallsview - Falls Management Company, with shareholdings of Niagara Casino Group, Highland Gaming, L.P., Shiplake Gaming Corporation, Olympic V, Inc. and 3048505 Nova Scotia Corporation; Casino Rama - CHC Casinos Canada Limited, an indirectly wholly owned subsidiary of CRC Holdings (CRC Holdings is an indirectly wholly owned subsidiary of Penn National Gaming, Inc.) and the Great Blue Heron Slot Machine Facility - Great Blue Heron Gaming Co.

   At each of the commercial casinos the operator is the employer of the employees working at that commercial property and all payroll costs are charged to the Corporation on a monthly basis.

b) Under the terms of the development and operating agreement for Casino Rama, the Chippewas of Mnjikaning receive an annual fee of $4,500,000, adjusted for inflation, relating to the provision of ongoing operating services. During the year, $5,392,000 (2005 - $5,269,000) was expensed. Other Chippewas of Mnjikaning charges amounting to $6,326,000 (2005 - $6,506,000) were also incurred during the year in connection with snow removal, water, sewer and emergency services. In addition, under the terms of a five-year lease renewal ending July 2011, for the rental of office space, $594,000 (2005 - $540,000) was expensed to a company related to the Chippewas of Mnjikaning. Also, under the terms of an eight-year

lease ending July 2011, an annual rental of $313,000, adjusted for inflation, for warehouse space is paid to a company related to the Chippewas of Mnjikaning. During the year, $325,000 was expensed (2005 - $320,000).

On April 30, 2002, an agreement was signed with the Chippewas of Mnjikaning, whereby the Corporation will reimburse the Chippewas of Mnjikaning 75 per cent of the annual operating budget of the fire department, in exchange for fire protection services to the casino complex. This amount is included in other Chippewas of Mnjikaning charges noted above and is defined in the agreement for the period April 1, 2000 to July 31, 2011.

The lands used for the Casino Rama complex are leased by Casino Rama Inc. from Her Majesty the Queen in the Right of Canada under a 25-year lease, which expires in March 2021. Annual rent payable under this lease is $3,500,000, adjusted for inflation, and is paid out of the gross revenues of the Casino Rama complex to the Chippewas of Mnjikaning in accordance with instructions from Indian and Northern Affairs Canada as representative for Her Majesty the Queen. During the year, $4,211,000 (2005 - $4,109,000) was expensed. Under the terms of an expansion agreement, additional annual rent of $1,700,000, adjusted annually for inflation, is payable and during the year $1,890,000 (2005 - $1,845,000) was expensed.

The terms of various agreements provide for the designation and leasing of Additional Parking Lands, as defined, by the Chippewas of Mnjikaning to Casino Rama with an annual rent payable of approximately $1,700,000, adjusted for inflation. While the designation and leases are not yet complete, the lands are permitted and currently in use at Casino Rama. During the year, $1,890,000 (2005 - $1,845,000) was expensed.

c) Under the terms of the development and operating agreement, the Mississaugas of Scugog Island First Nation receive an amount equal to five per cent of the gross revenue of the Great Blue Heron Charity Casino Slot Machine Facility in consideration for provision of the lands used for the Slot Machine Facility. During the year, $6,279,000 (2005 - $5,835,000) was paid to the Mississaugas of Scugog Island First Nation.

d) Falls Management Company (FMC) was the developer of the Niagara Fallsview Casino Resort (Fallsview). As at March 31, 2005, certain costs relating to the development of Fallsview were incurred by Casino Niagara. These costs were billed to FMC and were reflected in the Consolidated Balance Sheet as at March 31, 2005 as Due from Falls Management Company. During the year ended March 31, 2006 payments were made to FMC in the amount of nil (2005 - $25,076,000) for development fees relating to the construction of Fallsview.

Under the terms of the Niagara Falls Permanent Casino Operating Agreement, in a Competitive Environment, as defined, the Operator is entitled to receive additional Operator services fees and an Attractor fee. The Attractor fee is calculated, as defined, to allow for the amortization of the total capital contributions of the Operator to external attractors, to a maximum contribution of $30,000,000. As at March 31, 2006, the Operator's fees, due to the Operator, included an Attractor fee accrual of $8,506,000.

e) Casino Rama is located on reserve lands of the Chippewas of Mnjikaning First Nation under the authority of a 25-year lease (expiring in March 2021) between the Corporation and Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning First Nation.

Under the terms of the Casino Rama Revenue Agreement dated June 9, 2000, Ontario First Nations are entitled to the ongoing net revenues of Casino Rama, as defined, as well as the proceeds from the disposition of the moveable assets, as defined, and remaining undistributed earnings upon the dissolution or wind up of Casino Rama.

On March, 15, 2006, Her Majesty the Queen in Right of Ontario, the Corporation and the Ontario First Nations Limited Partnership (OFNLP) entered into a Gaming and Revenue Sharing Agreement-in-Principle (the Agreement). The Agreement is a non-binding agreement and under its terms, if formal (binding) agreements are executed and delivered by all parties on or before December 31, 2006 and all other terms and conditions in the Agreement and the related Closing Agreement are executed:

i) The Province of Ontario shall pay, or require the Corporation to pay, to the Ontario First Nations Limited Partnership, an annual amount of $25,000,000, commencing in January 2007 and for the following four years;

Year ended March 31, 2006 (tabular amounts in thousands of dollars)

ii) The Province of Ontario shall pay, or require the Corporation to pay, to the Ontario First Nations Limited Partnership, commencing with Fiscal Year 2011 and in each Fiscal Year during the remainder thereafter of the 15-year term, an amount equal to 1.6 per cent of the Gross Revenues of the Corporation, as defined. These payments will take the place of the net revenues that the OFNLP would otherwise have been entitled to under the Casino Rama Revenue Agreement;

iii) The final installment of the Casino Rama expansion loan, which is due on March 31, 2007, shall be paid by the utilization of up to $47,200,000 of Casino Rama reserve account cash balances, which have been established by Casino Rama. In addition, up to $46,000,000 in direct funding will be provided by the Corporation or the Province of Ontario, to be directed towards loan repayment, with any residual balances provided for from the operating cash balances of Casino Rama; and

iv) The Chiefs of Ontario and the Ontario First Nations Limited Partnership shall, subject to acceptance by the Courts, discontinue the litigation related to the 20 per cent win contribution (Note 11a) and release her Majesty the Queen in Right of Ontario and the Corporation.

9. Long-term liabilities

	2006	2005
Casino Rama non-revolving term loan	$ 107,215	$ 125,870
Niagara Fallsview Casino Resort loan	535,248	685,490
	642,463	811,360
Less current portion	263,952	168,898
	$ 378,511	$ 642,462

a) Casino Rama

In June 2000, the Corporation entered into an agreement relating to the expansion and renovation of Casino Rama. Under the terms of the agreement, the Chippewas of Mnjikaning were responsible for the development, construction and financing of the expansion project at Casino Rama. In addition, Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning, entered into a lending agreement that provides for a $186,560,000 non-revolving term credit facility for the project. The development and operating agreement for Casino Rama requires, among other things, that principal and interest payments be made from the gross revenues of Casino Rama in nineteen quarterly principal installments, beginning June 28, 2002, of $4,664,000 and a final installment of $97,644,000. The funds advanced under the credit facility have been secured by certain Casino Rama assets.

The credit facility bears interest at rates ranging between bank prime and bank prime plus 1.5 per cent dependent on conditions outlined in the credit facility agreement. Bank prime at March 31, 2006 is 5.5 per cent (2005 – 4.25 per cent). Interest paid during the year amounted to $7,798,000 (2005 – $8,804,000). An interest rate swap contract, which matures on June 30, 2007, was entered into on July 6, 2000, with an original notional principal of $125,100,000. The balance under the contract at March 31, 2006, amounted to $75,718,000 (2005 – $88,887,000). The contract results in a fixed rate of 6.68 per cent on the outstanding notional amount. The interest rate risk exposure is limited to the net differential between the variable borrowing rate and the fixed rate under the swap contract, which is approximately 2.7 per cent at March 31, 2006. The net interest rate receivable or payable under the contract is settled quarterly with the counter party, which is a Canadian chartered bank. The fair value of the interest rate swap contract, which represents the amount that would be paid to terminate or replace the contract as at March 31, 2006, is $2,062,000 (2005 – $5,386,000).

Fair value estimates of the interest rate swap contract are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve

uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

b) Niagara Fallsview Casino Resort

In June 2004, the Corporation entered into a loan agreement with the Ontario Financing Authority (Province of Ontario, a related party) for the purchase of the Niagara Fallsview Casino Resort from Falls Management Corporation. The initial loan balance of $794,000,000 plus interest, is repayable over five years. The loan bears interest at a rate of 4.4 per cent per annum and is unsecured.

c) The principal loan repayments expected to be made over the next four years are approximately:

2007	$ 263,952
2008	163,764
2009	170,867
2010	43,880

10. Commitments

a) Obligations under operating leases

The Corporation has entered into several leases for property and equipment. The future minimum lease payments are approximately:

2007	$ 23,239
2008	17,485
2009	16,420
2010	15,674
2011	11,257
	84,075
Thereafter	12,176
	$ 96,251

b) Suppliers

The Corporation has computer hardware and maintenance agreements with future payments of approximately:

2007	$ 15,778
2008	10,032
2009	2,361
2010	267
2011	267
	28,705
Thereafter	67
	$ 28,772

Year ended March 31, 2006 (tabular amounts in thousands of dollars)

c) Casino Windsor

In connection with Casino Windsor, in Windsor, Ontario, and under the terms of an agreement, the Corporation agreed to provide the City of Windsor with a fixed return over 20 years with payments commencing May 1, 1998 in the amount of $2,600,000 per annum for the first ten years and $3,000,000 per annum for the last ten years.

The Corporation is committed to a redevelopment project at Casino Windsor with a total cost not to exceed $400,000,000. As at March 31, 2006, $74,232,000 has been expended.

d) Niagara Fallsview Casino Resort

In connection with the Niagara Fallsview Casino Resort (Fallsview) in Niagara Falls, Ontario, and under the terms of an agreement, the Corporation agreed to provide the Corporation of the City of Niagara Falls (the City) with payments commencing December 7, 2000 in the amount of $2,600,000 per annum for the first ten years, $3,000,000 per annum for the next ten years and then $3,000,000 per annum, adjusted for Consumer Price Index, as defined in the agreement, thereafter.

11. Contingencies

a) In November 2003, the Ontario First Nations Limited Partnership (the Plaintiff) delivered a statement of claim against the Corporation, Her Majesty the Queen in Right of Ontario and the Chippewas of Mnjikaning First Nation, as defendant parties. The statement of claim alleges that the Province of Ontario wrongfully withheld 20 per cent of the gross revenues from Casino Rama operations. The Plaintiff claims damages in an amount equivalent to 20 percent of the gross revenues of Casino Rama from the time that it opened for operations to the date of judgment plus damages in the amount of $300,000,000. The outcome is indeterminate at this time and no amounts have been accrued in these financial statements.

b) In November 2003, the Chippewas of Mnjikaning First Nation (the Plaintiff) delivered a notice of claim against the Corporation, her Majesty the Queen in Right of Ontario and CHC Casinos Canada Limited, as defendant parties. The Plaintiff alleges to be the legal and beneficial owner of all capital assets purchased for use in the development and operation of Casino Rama and requires all amounts of retail sales tax that have been paid or accrued in respect of purchases of capital assets be reimbursed. The Plaintiff claims damages in the amount of $21,000,000 against the defendant parties, excluding CHC Casinos Canada Limited, and claims that title to all capital assets purchased for use in the development and operation of Casino Rama be transferred to the Plaintiff. The outcome is undeterminable at this time and no amounts have been accrued in these financial statements.

c) The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. The Corporation believes that the outcome of these outstanding claims will not have a material impact on these financial statements. Estimates, where appropriate, have been included in these financial statements, however additional settlements, if any, concerning these contingencies will be accounted for as a charge to the Consolidated Statement of Income in the period in which the settlement occurs.

Year ended March 31, 2006 (tabular amounts in thousands of dollars)

12. Segmented information

2006	Lotteries & Bingo	Commercial Casinos	Charity Casinos & Racetrack Slot Operations	Total
Revenues				
Lotteries & bingo	$ 2,432,673	$ –	$ –	$2,432,673
Slots	–	1,246,365	1,907,369	3,153,734
Tables	–	443,816	59,734	503,550
Non-gaming	–	239,566	30,077	269,643
	2,432,673	1,929,747	1,997,180	6,359,600
Less promotional allowances	–	262,896	72,955	335,851
	2,432,673	1,666,851	1,924,225	6,023,749
Operating expenses				
Non-gaming	–	217,780	31,553	249,333
Gaming and lottery operations	96,170	345,896	275,116	717,182
Lottery prizes	1,259,652	–	–	1,259,652
Commissions	171,494	–	373,136	544,630
Marketing and promotion	48,383	144,823	71,631	264,837
Operators' fees (Note 8a)	–	86,311	7,298	93,609
Amortization	25,395	129,946	62,958	218,299
General and administration	33,295	104,573	70,503	208,371
Facilities	7,609	150,668	68,144	226,421
Win contribution (Note 14)	–	338,048	25,048	363,096
Payments to Government of Canada (Note 15)	57,430	44,379	33,613	135,422
	1,699,428	1,562,424	1,019,000	4,280,852
Income before the undernoted	733,245	104,427	905,225	1,742,897
Interest and other income	3,346	22,181	17,268	42,795
Interest on long-term debt	–	(33,905)	–	(33,905)
Foreign exchange gain	8	15,840	4,164	20,012
	3,354	4,116	21,432	28,902
Net income	$ 736,599	$ 108,543	$ 926,657	$1,771,799

Year ended March 31, 2006 (tabular amounts in thousands of dollars)

2005	Lotteries & Bingo	Commercial Casinos	Charity Casinos & Racetrack Slot Operations	Total
Revenues				
Lotteries & bingo	$ 2,333,934	$ –	$ –	$ 2,333,934
Slots	–	1,176,316	1,927,407	3,103,723
Tables	–	423,837	62,914	486,751
Non-gaming	–	215,625	33,267	248,892
	2,333,934	1,815,778	2,023,588	6,173,300
Less promotional allowances	–	242,877	76,368	319,245
	2,333,934	1,572,901	1,947,220	5,854,055
Operating expenses				
Non-gaming	–	197,303	33,710	231,013
Gaming and lottery operations	92,714	331,148	272,314	696,176
Lottery prizes	1,225,196	–	–	1,225,196
Commissions	164,219	–	376,669	540,888
Marketing and promotion	52,439	125,097	73,993	251,529
Operators' fees (Note 8a)	–	76,678	6,847	83,525
Amortization	23,705	116,634	79,455	219,794
General and administration	31,321	99,215	58,584	189,120
Facilities	7,547	138,462	69,979	215,988
Win contribution (Note 14)	–	319,958	23,281	343,239
Payments to Government of Canada (Note 15)	55,384	41,748	33,923	131,055
	1,652,525	1,446,243	1,028,755	4,127,523
Income before the undernoted	681,409	126,658	918,465	1,726,532
Interest and other income	3,989	13,114	8,181	25,284
Interest on long-term debt	–	(31,472)	–	(31,472)
Foreign exchange gain (loss)	(3)	15,411	4,215	19,623
	3,986	(2,947)	12,396	13,435
Net income	$ 685,395	$ 123,711	$ 930,861	$ 1,739,967

Year ended March 31, 2006 (tabular amounts in thousands of dollars)

13. Post-employment plans

The Corporation provides pension benefits for all its permanent employees and to non-permanent employees who elect to participate through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employee's Union Pension Fund (OPSEU Pension Fund), which are multi-employer defined benefit pension plans established by the Province of Ontario. The cost of post-employment benefits is included in the pension contributions made by the Corporation to the PSPF and OPSEU Pension Fund and accordingly the Corporation has no additional liability for these future costs. The Corporation's contribution during the year was $16,795,000 (2005 - $16,529,000).

The operators of the commercial casinos have created defined contribution pension plans for their employees. The pension expense for the year amounted to $22,589,000 (2005 - $18,227,000).

14. Win contribution

The Corporation remits a contribution to the Province of Ontario equal to 20 per cent of gaming revenue from commercial casinos and the Great Blue Heron Charity Casino Slot Machine Facility.

15. Payments to Government of Canada

The Corporation made the following payments to the Government of Canada:

	2006	2005
Payments on behalf of the Province of Ontario	$ 24,436	$ 23,717
Goods and Services Tax	110,986	107,338
	$ 135,422	$ 131,055

a) Payments on behalf of the Province of Ontario

The provincial lottery corporations make payments to the Government of Canada under an agreement dated August 1979 between the provincial governments and the Government of Canada. The agreement stipulates that the Government of Canada will not participate in the sale of lottery tickets.

b) Goods and Services Tax

As a prescribed Goods and Services Tax (GST) Registrant, the Corporation makes GST remittances to the Federal Government pursuant to the Games of Chance (GST/HST) Regulations of the Excise Tax Act. The Corporation's net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities. The net tax attributable to gaming activities results in a 14 per cent tax burden on most taxable gaming expenditures incurred by the Corporation. The net tax attributable to non-gaming activities is calculated similar to any other GST registrant in Canada.

16. Comparative amounts

Certain prior year amounts have been reclassified to conform with current year financial statement presentation.

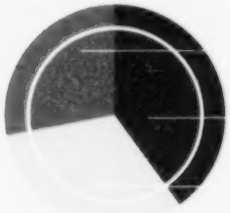
Overall Corporate Performance

The Corporation ended the year with consolidated gross revenues in excess of $6 billion. Total net income was $1.8 billion – $32 million or two per cent greater than last year primarily due to the launch of the PayDay lottery game, which significantly enhanced lottery revenue expectations, and the resumption of professional hockey following the 2004–2005 season lock-out.

Revenues – Fiscal 2006 Versus Fiscal 2005

The Corporation completed the fiscal year ended March 31, 2006 with net revenues, after promotional allowances, of $6 billion. This represented an increase of $170 million as compared to last year due to increased lottery and commercial casino revenues. Revenues are reported net of players club expense (a loyalty program whereby patrons earn points based on volume of play) and promotional allowances, which include the retail value of accommodation, food and beverage services and other complimentary services provided to patrons.

Fiscal 2005–2006 Revenue Distribution



32%
Charity Casinos & Racetrack Slots

40%
Lotteries & Bingo

28%
Commercial Casinos

Lottery and Bingo

The Lottery and Bingo division continues to be the Corporation's largest revenue-generator, with fiscal 2006 revenues of $2.4 billion – $99 million or four per cent ahead of last year. Lotteries revenue is reported before deduction for prizes. The growth in revenue is largely attributable to the new online game, PayDay, which was launched on May 24, 2005 and contributed $62 million to the year-over-year increase. In addition, the resumption of the professional hockey season, following the lockout in the previous year, increased sports lottery revenue by approximately $62 million. LOTTO 6/49 reached a record-setting $54.3 million jackpot on October 26, 2005, which contributed to a two percent increase in its annual revenue, as compared to last year. LOTTO SUPER 7 trailed last year by approximately $27 million as a result of lower jackpots. During the year, a total of four new Bingo pilot sites were launched – Barrie on September 28, 2005, Kingston on November 1, 2005, Peterborough on December 6, 2005, and Sudbury on January 24, 2006. These sites, which offer regular paper bingo as well as electronic bingo and sell break-open tickets, contributed a total of $5 million in additional revenue.

Commercial Casinos

Total commercial casinos revenue was $1.7 billion, an increase of $94 million as compared to last year. This is the second consecutive year that revenues for the commercial casinos have improved, due in part to the opening of Niagara Fallsview Casino Resort (Fallsview) in June 2004 and a strong performance at Casino Rama. Casino Windsor's revenues also improved, after taking into consideration the prior year's labour-related strike closure. Casino Niagara and Fallsview achieved combined net revenues of $684 million – this was $50 million above last year due to a full year's performance at Fallsview, which offset some of the decline experienced because of the strong Canadian dollar. Despite Casino Windsor's increased revenues compared to last year, this property continues to be negatively affected by border restrictions and the strong Canadian dollar. During this fiscal year, the US dollar depreciated, in Canadian dollar terms, from $1.2096 at March 31, 2005 to $1.1671 at March 31, 2006. In May 2006, the Canadian dollar achieved a 28-year high of $1.1099. All three border facilities – Casino Niagara, Fallsview and

Casino Windsor – have a large US patron base. In addition, the $400 million development project at Casino Windsor created various construction-related disruptions that had a negative impact on patron traffic at the facility. Casino Rama performed well, with net revenues $30 million ahead of fiscal 2005, in part due to the implementation of non-smoking bylaws at neighbouring sites.

Charity Casinos and Racetrack Slots Operations

The charity casinos and racetrack slot operations, including the slot operations at the Great Blue Heron Charity Casino, finished the year with revenues of $1.9 billion, which was $23 million lower than last year. This is the second consecutive year that revenues have declined, due to the implementation of non-smoking bylaws at a number of sites, continued competition from casinos located in New York State and from Fallsview, border restrictions and the strong Canadian dollar. The opening of slot facilities at Ajax Downs on February 28, 2006 helped mitigate the revenue declines at other sites, with this site contributing $7 million in revenue for the year.

Projections and Plans

Revenues are expected to be negatively affected during fiscal 2007 as a province-wide ban on smoking comes into effect on May 31, 2006. Additional competition for border locations will also continue to challenge our market share and the strong Canadian dollar will continue to challenge border properties. The Corporation, however, is looking at alternative ways to increase revenues in a responsible manner while focusing on cost-containment efforts.

The $400 million Casino Windsor development project, announced on February 14, 2005, is well underway. The project entails an expansion of non-gaming amenities, including the addition of a 5,000-seat theatre, 100,000 square feet of convention space, a 400-room hotel tower and expanded food and beverage operations. It is to be completed and ready for operation in fiscal 2008. The initiative will allow Casino Windsor to position itself competitively in the Detroit-Windsor market, helping to improve its market share.

With government approval, the Corporation plans to rollout electronic bingo to approximately 12 additional bingo gaming facilities and expand the offering of sports wagering products at selected gaming facilities.

In fiscal 2007, the Corporation will be launching a new brand based on our vision of being a world-class gaming entertainment company. The brand will include a new corporate name – OLG – and a new logo. The brand will showcase our commitment to delivering fun and excitement in a socially responsible manner to all residents of Ontario.

The Corporation continues to evaluate and implement business optimization initiatives to make the Corporation's structure and processes more efficient. A number of opportunities for improved efficiency have been identified and implemented as a result of this process.

Expenses – Fiscal 2006 Versus Fiscal 2005

Fiscal 2005-2006 Expense Distribution

24%
Charity Casinos & Racetrack Slots

40%
Lotteries & Bingo

36%
Commercial Casinos

Non-gaming

Non-gaming expenses include the costs of promotional allowances and services such as food, bar, hotel, entertainment centre, coat check and valet parking, which are provided to patrons of casinos and racetrack slot operations. Non-gaming expenses increased by $18 million this fiscal year to a total of $249 million. This increase is directly attributable to the opening of Fallsview in June 2004, which provides an array of non-gaming amenities including a hotel, entertainment centre, retail, food and bar facilities, wedding chapel and spa.

Gaming and Lottery Operations

Gaming and lottery operations expenses, which include direct operational costs such as personnel, lottery ticket printing, telecommunications and terminal maintenance costs, as well as slot machine and table operational costs, are $717 million, $21 million higher than the previous year, primarily due to expenditures associated with a full year's operation of Fallsview – adding an additional two months of expenses this fiscal year.

Lottery Prizes

Lottery prize costs increased this year by $34 million to $1.3 billion, consistent with the revenue increase, which was $99 million higher than last year. Lottery prize costs also vary according to the mix of product revenues and the jackpot levels achieved. Prizes as a percentage of sales actually declined as compared to last year, as there was $10 million less in guaranteed jackpot funding required for LOTTO SUPER 7 and LOTTO 6/49. In fiscal 2006, jackpot guarantees for the two flagship products required $16 million of additional prize funding, whereas in fiscal 2005, $26 million was needed.

Commissions

Commissions – fees paid to lottery retailers, bingo hall operators, municipalities, racetrack owners and horsepeople – are $545 million this year, $4 million higher than the previous year with higher lottery revenues partially offset by lower charity casino and racetrack revenues.

Marketing and Promotion

Total marketing and promotion expenses of $265 million are $13 million higher than last year. This expense category includes the cost of shuttle buses, signage, direct mail, miscellaneous prizes and promotional items and payroll costs associated with various marketing departments, as well as newspaper, radio and television advertising.Total consolidated commercial casino marketing and promotional spending was $20 million higher than last year due to increased costs for all the properties in an effort to attract and retain patrons given the competition in the surrounding area. Lotteries' marketing and promotion expenses were actually $4 million less than last year, primarily due to cost containment efforts and lower spending on INSTANT products. Marketing and promotion spending for charity casinos and racetrack slot operations was also lower than last year – a $3 million decrease, in part due to reduced revenues.

Operators' Fees

Total operators' fees paid to third-party operators of commercial casinos and the slot operations at Great Blue Heron under the terms of their respective agreements were $94 million. This represents an increase of $10 million over last year and is directly attributable to increased revenues, consistent with the terms of the operator agreements.

Amortization

Fiscal 2006 amortization expense is $218 million, a decrease of $2 million when compared to last year. This is primarily due to slot machines and security/surveillance equipment becoming fully amortized during the year; partially offset by an additional two months of amortization expense for Fallsview.

General and Administration

General and administration expenses for the year are $208 million, up $19 million from last year. In addition to normal general and administrative expenditures, this category includes the cost of centralized support services provided by the Finance, Administration, Human Resources, Information Technology, Legal, Corporate Security and Surveillance, Executive Services and Internal Audit departments. The overall increase is primarily related to rising employee benefit costs and higher legal fees.

Facilities

Facilities expenses include the cost of maintaining and operating facilities. They also include property taxes, insurance and the cost of common areas at racetrack facilities. Total expenses for fiscal 2006 are $226 million, which represents a $10 million year-over-year increase. The increase was primarily attributable to the additional two months of costs associated with Fallsview, partially offset by a decrease in common area costs following a settlement at a racetrack slot facility.

Win Contribution

The win contribution paid to the Province of Ontario is the 20 per cent of the gaming revenue from each of the commercial casinos and the slot operations at the Great Blue Heron Charity Casino. The increase of $20 million is due to a net increase in gaming revenues at the commercial casinos.

Payments to the Government of Canada

Payments to the Government of Canada include Goods and Services Tax (GST) as well as payments made on behalf of the Province of Ontario under an agreement between provincial governments and the Government of Canada whereby the federal government agrees not to participate in the sale of lottery tickets. The net increase of $4 million is primarily due to increased GST expense, consistent with the increase in operating expenditures, as compared to the prior year.

Interest and Other Income

Interest and other income of $43 million in the current year is $18 million above last year. This category includes interest income, automated teller machine (ATM) revenue and credit card commissions. The year-over-year increase is the result of higher ATM revenue at the charity casinos and slots at racetracks and commercial casinos. ATM surcharges were implemented at more gaming sites in fiscal 2006 than in the previous year.

Interest on Long-Term Debt

Interest on long-term debt of $34 million is $2 million higher than last year. This category represents interest paid on debt incurred to finance the Casino Rama expansion project (entertainment centre and hotel) and the Fallsview casino.

Foreign Exchange Gain

Foreign exchange gain, predominantly from the buying and selling of US dollars at border properties, is $20 million, which is consistent with last year.

Net Income

Fiscal 2005–2006 Net Income Distribution

Net income of $1.8 billion is $32 million ahead of last year. Lotteries and bingo net income made the greatest improvements over the prior year, with an increase of $51 million, with their net income for the year at $737 million. The higher earnings were primarily attributable to the higher revenues. Charity casinos and racetrack slot operations ended the year with net income of $927 million, a marginal decrease of $4 million from last year. While year-over-year revenue is down $23 million for this line of business, costs savings realized in a number of areas mitigated this downward impact. Net income for commercial casinos is $109 million, a decrease from the prior year of $15 million. Although commercial casino revenue is up $94 million as compared to last year, various expense lines – in particular non-gaming, marketing and promotion and win contribution – also increased year-over-year, as discussed in the preceding sections.

Risk Management

The Corporation approaches the management of risk strategically, keeping in mind the objective of optimizing total return to the shareholder, within the context of our responsible-gaming mandate. The Audit and Risk Management Committee of the Board of Directors, as part of their oversight role, are responsible for ensuring that the Corporation identifies and manages risk. The status of the Corporation's risk assessment and action plans is reported to the Audit and Risk Management Committee on a quarterly basis.

The Corporation continued the development and implementation of the business risk management (BRM) framework in fiscal 2006.

Liquidity and Capital Resources

Cash generated from operations for the fiscal year ended March 31, 2006 is $2 billion, which is consistent with last year. The amount expended on financing was $169 million, which includes repayments of a bank loan secured to acquire the Fallsview casino. The initial loan to acquire Fallsview of $794 million was provided in fiscal 2005 and is repayable over five years at an interest rate of 4.4 per cent per annum. The net funds used for the current year's repayments were $177 million. The amount expended on investing activities, which includes capital acquisitions and construction activities, is $288 million, $606 million less than last year. Last year's amount included the acquisition of Fallsview on June 30, 2004, at a total cost of $770 million. The most significant investments this year included the replacement of slot machines, the expansion at Casino Windsor and the opening of the Slots at Ajax Downs.

Direct cash payments to the Province of Ontario are $1.5 billion, $143 million lower than last year. These payments represent net income adjusted for working capital requirements and capital expenditures. The following schedule summarizes cash payments to the Province of Ontario in the year, exclusive of Ontario Financing Authority principal repayments:

	2006 ($ millions)	2005 ($ millions)
Cash Payment Source		
Direct payments to Province	$ 1,486	$ 1,629
Win contribution	363	343
Interest on OFA loan (Fallsview)	27	23
Direct cash payments to the Province	$ 1,876	$ 1,995

Key Performance Indicators

The Corporation continues to focus its efforts on maximizing operational efficiencies and optimizing profits. In order to achieve this goal, the key performance indicators are useful tools for assessing critical expenses relative to revenue.

	2006	2005
EBIDA margin*		
Lotteries & Bingo	64.9%	63.8%
Commercial Casinos	31.1%	32.1%
Charity Casinos & Racetrack Slot Operations	50.4%	50.7%
Marketing as a % of gaming revenue**		
Lotteries & Bingo	4.2%	5.0%
Commercial Casinos	24.5%	23.4%
Charity Casinos & Racetrack Slot Operations	6.3%	6.6%
Payroll as a % of total revenue***		
Lotteries & Bingo	2.1%	2.2%
Commercial Casinos	28.4%	28.4%
Charity Casinos & Racetrack Slot Operations	15.7%	15.6%

* The EBIDA (earnings before interest expense, win contribution, depreciation and amortization) margin is a common measure used in the gaming industry.
** Marketing costs include promotional allowances, promotions, advertising and corporate marketing. These costs are divided by gaming revenue. Gaming revenue includes revenue from lottery and bingo games, as well as slot and table game operations, but excludes all non-gaming revenue.
*** Payroll as a percentage of total revenue is derived by dividing payroll and benefit costs by total revenue.
Both marketing and payroll indicators represent key cost drivers of the Corporation.

Tabular amounts in thousands of dollars

Reconciliation of EBIDA to Net Income as Referenced in Note 12

The items listed represent the income and expense amounts required to reconcile EBIDA with net income as defined under Canadian generally accepted accounting principles (GAAP). The following information should be read in conjunction with Note 12 of the Consolidated Financial Statements.

2006	Lotteries & Bingo	Commercial Casinos	Charity Casinos & Racetrack Slot Operations	Total
EBIDA	$ 762,500	$ 612,478	$ 1,015,460	$ 2,390,438
Amortization	(25,395)	(129,946)	(62,958)	(218,299)
Interest expense	–	(33,905)	–	(33,905)
Win contribution	–	(338,048)	(25,048)	(363,096)
Reallocation of support services and inter-company activity	(506)	(2,036)	(797)	(3,339)
Net income as referenced in Note 12	$ 736,599	$ 108,543	$ 926,657	$ 1,771,799

2005	Lotteries & Bingo	Commercial Casinos	Charity Casinos & Racetrack Slot Operations	Total
EBIDA	$ 709,566	$ 592,462	$ 1,030,743	$ 2,332,771
Amortization	(23,705)	(116,634)	(79,455)	(219,794)
Interest expense	–	(31,472)	–	(31,472)
Win contribution	–	(319,958)	(23,281)	(343,239)
Reallocation of support services and inter-company activity	(466)	(687)	2,854	1,701
Net income as referenced in Note 12	$ 685,395	$ 123,711	$ 930,861	$ 1,739,967

Tabular amounts in thousands of dollars

Reconciliation of Total Revenue to Revenue as Referenced in Note 12

The items listed represent the income and expense amounts required to reconcile total revenue with revenue as referenced in Note 12 and defined under Canadian GAAP. The following information should be read in conjunction with Note 12 of the Consolidated Financial Statements.

2006	Lotteries & Bingo	Commercial Casinos	Charity Casinos & Racetrack Slot Operations	Total
Total revenue	$ 1,175,348	$ 1,969,256	$ 2,014,408	$ 5,159,012
Lottery prizes	1,259,652	–	–	1,259,652
Interest and other income	(3,346)	(22,181)	(17,268)	(42,795)
Foreign exchange loss (gain)	(8)	(15,840)	(4,164)	(20,012)
Reallocation of support services	1,027	(1,488)	4,204	3,743
Revenue as referenced in Note 12	$ 2,432,673	$ 1,929,747	$ 1,997,180	$ 6,359,600

2005	Lotteries & Bingo	Commercial Casinos	Charity Casinos & Racetrack Slot Operations	Total
Total revenue	$ 1,111,716	$ 1,844,985	$ 2,031,161	$ 4,987,862
Lottery prizes	1,225,196	–	–	1,225,196
Interest and other income	(3,989)	(13,114)	(8,181)	(25,284)
Foreign exchange loss (gain)	3	(15,411)	(4,215)	(19,623)
Reallocation of support services	1,008	(682)	4,823	5,149
Revenue as referenced in Note 12	$ 2,333,934	$ 1,815,778	$ 2,023,588	$ 6,173,300

The EBIDA margin for lotteries and bingo for fiscal 2006 has increased as compared to last year due to a combination of higher revenues, as discussed earlier, and higher net income. The EBIDA margin for commercial casinos is down as revenue increases have been more than offset by proportionately higher operating costs. The EBIDA margin for charity casino and racetrack slot operations is slightly below last year, as both revenue and net income are down marginally.

Marketing as a percentage of gaming revenue for lotteries and bingo decreased from last year, due to cost containment efforts and lower spending on instant products. For commercial casinos, marketing as a percentage of gaming revenue is higher than last year as all properties have increased their spending as the gaming market continues to become more competitive. Charity casino and racetrack slot operations marketing costs are down from the prior year, due to cost containment efforts.

Payroll as a percentage of total revenue for lotteries and bingo decreased from last year, due to cost containment initiatives. Payroll costs at the commercial casinos were consistent with last year. Payroll as a percentage of total revenue is slightly higher for charity casinos and racetrack slot operations due to decreased revenues.

In addition to the above listed indicators, market share analysis is undertaken on an ongoing basis at Casino Windsor and the Niagara casinos. Casino Windsor's market share has declined since 1999 as three Detroit-based casinos opened in the 17 months between July 1999 and November 2000. The Niagara casinos compete for market share with a total of five New York state facilities that collectively offer approximately 9,100 slot machines and VLTs. In addition to increased competition, ongoing border issues and a strong Canadian dollar continue to depress the number of US patrons who visit these border locales.

Fees Paid to External Auditors

For the fiscal year ended March 31, 2006, the Corporation retained its independent auditors, Grant Thornton LLP, KPMG LLP and Ernst and Young LLP to provide services in the categories and amounts shown below.

	Grant Thornton	KPMG	Ernst & Young	2006 Total	2005 Total
Audit services	$ 250,721	$ 816,242	$ 76,601	$ 1,143,564	$ 836,218
Audit-related services	68,085	153,055	–	221,140	265,595
Tax services	–	485,151	–	485,151	49,455
Other services	60,075	66,694	–	126,769	319,796
Total of all services	$ 378,881	$ 1,521,142	$ 76,601	$ 1,976,624	$ 1,471,064

Board of **Directors**

Timothy Reid, Chair
February 23, 2004 – February 22, 2007

Perry Anglin
January 27, 2005 – October 26, 2005

Ronald Fotheringham
August 25, 2004 – August 24, 2007

Michael Gough
March 1, 2006 – February 28, 2009

Kristina Liljefors
August 8, 2005 – August 7, 2008

Marlene McGraw
February 15, 2006 – February 14, 2009

Peter Philip Mercer
December 21, 2004 – June 30, 2005

Lou Panontin
January 20, 2003 – January 19, 2006

Michelle Samson-Doel
July 5, 2004 – July 4, 2007

Beverly Topping
July 5, 2004 – July 4, 2007

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Energy not consumed = 21,848,190 BTU
Natural gas saved by using biogas = 3,222 cubic feet / 92 m^3
Lowered air emissions (CO_2, SO_2, NO_x) by = 357 lb. / 161 kg

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